
Catford Regeneration Partnership Ltd

Business Plan 2015/16

Introduction

Catford Regeneration Partnership Limited (CRPL) is a wholly owned subsidiary of Lewisham Council. The company was originally 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 (LBL).

The purpose of this business plan is to set out the company's objectives, activities, and budget for 2015/16 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 two directors, Ralph Wilkinson (LBL Head of Public Services) and Selwyn Thompson (LBL Head of Financial Services). 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. The 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 an in house surveyor from the LBL Corporate Asset Services and external agents that oversee daily management of the property and report to the directors 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 in 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 (as set out in section 25.2 of the Articles of Association). As outlined herein, in order to provide greater flexibility we will be seeking to broaden this approach from £20,000 to £50,000 and £100,000 aggregate to £200,000 accordingly.
- 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 had responsibility for setting the overall direction on the regeneration of Catford town centre. CRPL is represented at these programme board meetings, which have

been 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. As mentioned above, Council officers also conduct work on behalf of the company and officers' time is recharged to the company as and when 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 2015/16 financial year:

- Diversification within the wider borough area to enable greater financial sustainability and the ability to conduct broader investment, development and regeneration activities. This will be subject to options appraisal being undertaken.
- To ensure sustainable financial models are developed that allow progression from current holding and operation positions through redevelopment, into successful future investment positions.
- 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, in order to contribute to the regeneration and investment aims as a whole through property related activities.
- To enable CRPL to acquire and dispose of key properties that are considered strategic or surplus to further regeneration aims within the borough. This is not to be limited only to properties with commercial use.

Activities

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

Centre and property 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 regears (such as lease renewals, rent reviews and new lettings);
- Legal proceedings relating to leases and rental arrears;
- Data management; maintenance of accurate records and accounts;
- 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, Commercial, Leisure and Residential proposals
- Design/feasibility/master-planning/place-making/financial modelling work
- Planning strategies (led by LBL)
- Milford Towers decant strategy (led by LBL)
- Council office design (led by LBL)
- Residential proposals (in conjunction with LBL)
- Development management.

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

- DTZ - Managing agents
- Mason Owen – Retail letting agents
- Johnson Fellows - Surveyors & rent review negotiators
- Field Fisher – Solicitors

Budget Review 2014/15

The 2014/15 budget was developed by officers based on 2013/14 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 budgeted for a surplus for this financial year and this is forecast to be achieved. This will broadly offset the deficit which was made in 2013/14, which was due to the major enabling works undertaken on commercial lettings.

Letting and Renewal Fees – there have been a number of new and renewed lettings this financial year, including new leases on 6 Winslade Way to Blue Inc, 2-3 Winslade Way to Store 21, 23-24 Winslade Way to Sam 99p and an assignment on 148 Rushey Green from Phones4U to Vodafone, as results of previous tenants going into administration or exercising their lease breaks. A few tenants had to liquidate their businesses, such as 1 Winslade Way and 1 Catford Broadway. Both units are now under offer with leases to be completed in Q1 2015. 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.

CRPL completed six rent reviews at passing rent on 33 Winslade Way (Holland & Barrett), 25-26 Winslade Way (Poundstretcher), 10-13 Winslade Way (Iceland), 22a

Winslade Way (Angel Star Nails Beauty Salon), 22 Winslade Way (British Heart Foundation) and 34-35 Winslade Way (Inspire Beauty).

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 – The overall spend on non-recoverable costs, exclusive of works in relation to new commercial lettings, was higher than projected as other works especially repair works to the residential properties were higher than forecasted.

Interest Rate on Outstanding Loan – The interest rate charged on the loan to CRPL by the Council has been reduced from 5.62% to 4.8% with effect from 10th November 2014. This reflects the recent downward movement in interest rates and the reduced risk now that the company has been trading for over 4 years.

Rental Income – This has again held up well, despite a number of properties in the Catford Centre being vacant for a period due to lease expiry. This particularly applied to 1 Winslade Way, 2/3 Winslade Way, 23/24 Winslade Way and 27 Winslade Way. In addition, a few of the residential properties were vacant while repair work was carried out. As last year, 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.

Research for business resilience & opportunities – This relates to how the business can be more sustainable and resilient whilst assisting with broader regeneration and development activity within the borough. With a view to altering section 25.2 of the Articles of Association to provide more flexibility from a business operations prospective.

2015/16 Budget and Management Approach

Rental and Service Charge Analysis – An analysis of rental income against the projected figures 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 £1.080m for the financial year 2015/16.

The 2015/16 income will not be significantly affected by a target vacant possession date after January 2018, due to the estate being nearly fully let. The focus will be on the residential lettings, as there are three voids within the estate, due to recent court possessions and refurbishments. On the commercial estate, majority of the rent free periods have come to an end and only four units that are currently under offer will get a benefit of a rent free period, which will be expired by the end of Q2 2015.

The shopping centre service charge is a separate cost to tenants and all expenditure is 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 2013/14 service charge year (1 October - 30 September) totalled £448,000.

Operational Estate – As at the end of April 2015, all of the voids within the portfolio are under offer, indicating that unless any of the existing tenants goes into administration, the estate can be considered fully let. The current tenant of 4 Winslade Way (Sense Charity)

have exercised their break, which is in September 2015. As a result, this is the only unit that CRPL will get back in 2015 through planned lease expires.

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 take a flexible approach to its lease renewals and lettings. This approach includes temporary lettings to cover service charge and business rates and also short term lettings for up to three years to allow flexibility around future regeneration plans.

Furthermore, due to an increased likelihood of vacancies as the proposed redevelopment date approaches and given the current economic climate, which has resulted in a number of retailers being unable to continue with their leases in 2014, the budgets for letting and renewal fees, along with the budget for covering empty property costs, are being increased to roughly the same level as the 2014/15 spend.

Acquisitions – In Q3 2014, CRPL received Mayor and Cabinet approval to acquire the Brookdale Club Ltd's freehold premises in Catford, The acquisition is a significant component of the Council's wider regeneration initiatives to facilitate the regeneration of the Town Centre and prevent a situation whereby the Council could have to buy the property at a much inflated price in the future resulting in delays and a possible Compulsory Purchase Order. The acquisition is not yet completed and is likely to be finalised in Q2 2015.

The strategy is to acquire the property through an exchange of contracts and then defer completion with interim occupation continuing for The Brookdale Club. Once completion takes place (the earliest this will be is six months from exchange), the property will be leased to a community or private organisation seeking D1 or D2 accommodation on the ground floor and the upper parts will be either available to ease the burden for Temporary Housing or be let on Assured Shorthold Tenancies (ASTs). CRPL can acquire residential properties without creating protected tenants and can lease properties on ASTs, which the Council cannot do.

Repairs – The level of the CRPL repairs budget, which relates to anything that is not covered via the service charge (shared between all tenants in the shopping centre and CRPL), has been increased to the level of the 2014/15 spend to reflect the level of projected repair work which will be necessary. 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.

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.

CRPL is projecting a small surplus in 2015/16. This shows that the company is operating successfully and it is considered that this is a fair budget assumption given the 2014/15 budget position. This surplus will be utilised to meet the deficit from the 2013/14 year.

Future Year Budget Projections and Proposed Initiatives

Following discussions with the Council regarding the likely vacant possession target date, CRPL believes it is prudent to base its 2016/17 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. All of the lettings and renewals have a rolling

development break clause from January 2018. 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.

Inline with the Company's objects (section 2 - Articles of Association) to carry on a business that will improve the economic, social and environmental well being of the area and the residents of Catford and the wider London Borough of Lewisham. CRPL will continue to take a pro-active view in relation to acquisitions, regeneration, development and investment activities both within Catford and the wider London Borough of Lewisham.

CRPL's strategic approach will assist the company to become more financially resilient whilst also assisting the Council to further its regeneration and meet the corporate objectives.

In doing this, the following areas have specifically been reviewed and additional professional advice sought to try to ensure that the Business Plan is deliverable and that risks are appropriately managed.

- **Tax Implications** of CRPL buying and selling properties
- **Procurement procedures** – to have CRPL's own procedures or deploy those of the Council.
- **Employment Considerations** – determine the basis upon which CRPL will set terms of employment, benefits and policies (and the extent, if any, that these will be aligned with the Council's), and commence preparation of appropriate standard employment terms, benefits and policies.
- **Requirements in CRPL's Articles of Association**
 - Implement practical steps to ensure compliance with CRPL's Articles of Association in relation to recruitment of staff and changing terms and conditions of employment. Section 25.20 "any change to the terms of employment/engagement and or remuneration of a person referred to in articles 25.18 and 25.19".
 - Implement the approval of each Budget and in any financial year changes over £50,000 in any one amendment to the Budget and changes to the Budget exceeding £200,000 in aggregate in any financial year. In order to provide greater flexibility we will be seeking to broaden the current approach from £20,000 to £50,000 and £100,000 aggregate to £200,000 accordingly (vary section 25.2 of the Articles of Association).

APPENDIX A

CATFORD REGENERATION PARTNERSHIP LTD

PAST, CURRENT AND FUTURE YEARS BUDGETS

	2013/14 Final Outturn £000	2014/15 Original Budget £000	2014/15 Draft Outturn £000	2015/16 Draft Budget £000
<u>INCOME</u>				
Lease Rents Receivable	1,206cr	1,050cr	1,087cr	1,080cr
Empty Property Grant	0	0	32cr	0
Service Charge Recoveries	147cr	140cr	141cr	140cr
TOTAL INCOME	1,353cr	1,190cr	1,260cr	1,220cr
<u>EXPENDITURE</u>				
<u>CRPL costs</u>				
CRPL Employee Costs	83	84	84	84
LBL Staff Recharges	73	73	70	68
Letting and Renewals Fees	122	60	81	90
Property Purchase and Running Costs	59	70	137	130
Major Works, Repairs and Maintenance	298	50	78	80
Insurance Costs (Net)	30	36	18	20
Fees and Miscellaneous	8	9	17	12
	673	382	485	484
<u>Loan Repayments</u>				
Interest	99	653	616	553
Principal	658	105	113	132
	757	758	729	685
TOTAL EXPENDITURE	1,430	1,140	1,214	1,169
NET PROFIT (cr) / LOSS	77	50cr	46cr	51cr

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 £50,000 in any one amendment to the Budget and changes to the Budget exceeding £200,000 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.