
Catford Regeneration Partnership Ltd

Business Plan 2016/17

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 2016/17 for agreement by the Council as sole shareholder in accordance with the company's articles of association (listed at Appendix B).

Structure and governance

The 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, the 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 Estates team and external agents that oversee daily management of the property and report to the directors of CRPL. The in-house officers' time is recharged to the company as and when appropriate. The CRPL no longer has direct employees; the centre manager and cleaning supervisor were transferred to Cushman & Wakefield under TUPE in autumn 2015.

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 £50,000 in any one amendment to the Budget and changes to the Budget exceeding £200,000 in aggregate in any financial year (as set out in section 25.2 of the Articles of Association).
- 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. The 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.

Objectives

The 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. The CRPL directors propose the following company objectives for the 2016/17 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 agree with the Catford Programme Board revised timescales for the regeneration programme for Catford Town Centre. Dependant on timescales, the CRPL will set a revised break notice date to be incorporated within its commercial leases, currently 31st January 2018.
- To ensure sustainable financial models are developed that allow progression from current holding and operation positions through redevelopment, into successful future investment positions.
- 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;

- The CRPL contracts; procurement and management of services provided to the CRPL by outside parties. These include centre management, legal, accountancy, landlord and tenant advice 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 the CRPL in the delivery of these activities include:

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

Operational Review 2015/16

Commercial Lease lettings and renewals – The CRPL continues to take a flexible approach in entering into leases with commercial tenants including temporary lettings to cover service charge and business rates. There have been a number of changes of occupiers in the past year with a number of tenants (Purelife and Sense) triggering tenant break clauses and vacating short of the term of their leases. There is generally a reasonable demand for vacant shops with the smaller ones proving more popular. New shop tenants tend to be of a relatively low covenant, often sole traders with little or no capital for investment in their units prepared to enter into a short term non-protected lease with a landlord's break option in January 2018. Having a break date within less than two years of the lease commencement date can discourage better covenant tenants and has a detrimental effect to attracting a higher quality tenant to encourage footfall to the Centre. The CRPL will be working towards putting back the break date by as far as possible in order to make its units more attractive to a wider range of users whilst taking into account the expected timescales of the proposed regeneration.

Sense (4 Winslade Way) and Purelife (5 Winslade Way) both left the Centre in the autumn of 2015. Sense triggered a break clause citing poor trade and vacated in October 2015. The unit has been marketed since and a new tenant is due to complete its lease in March 2016. Purelife also triggered its break clause, citing difficult trading conditions, and vacated in November 2015. A new tenant, Cutie Couture, has taken a one year lease from February 2016.

There were no rent reviews carried out in the 2015/16 year.

Residential leases and renewals – The CRPL holds a number of self-contained residential flats situated above the commercial shops. The majority of flats are leased on Assured Shorthold Tenancies (ASTs) with two leased to the London Borough of Lewisham Private Sector Lettings team. Numbers 17a and 18a Catford Broadway are in need of significant refurbishment in order to make them habitable. Number 17a is vacant and the tenant at 18a has been served

notice to quit in March 2016. This became necessary as a result of a partial ceiling collapse due to an overburdened roof structure. Once 18a has become vacant, the CRPL will seek advice and pricing on refurbishing both flats and offering to the residential market either by means of an AST or through the Council's private sector letting team.

Brookdale Club Purchase – The CRPL has exchanged contracts on the purchase of the Brookdale Club as reported in its 2015/16 Business Plan. The acquisition is a significant component of the Council's wider regeneration initiatives to facilitate the regeneration of the town centre. Completion of the purchase was expected in Quarter 2 of 2015/16 and is now expected to complete during 2016/17. Once the purchase is completed it is intended that the property is leased to a private or community organisation seeking D1 or D2 accommodation on the ground floor. The upper parts will be used for residential purposes, either through ASTs or to ease the burden for temporary housing. The CRPL can lease properties on ASTs, which the Council is unable to do.

Financial Review 2015/16

Overall the company budgeted for a surplus of £50k for this financial year and this is forecast to be achieved. This will broadly offset the deficit which was made in 2014/15, mainly due to major repairs work undertaken on residential lettings.

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. A few residential properties were vacant for a while due to repair work being carried out. 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.

Employee Costs – These costs have reduced due to the transfer of the two employees to Cushman and Wakefield. There is a corresponding reduction in the service charge Income recovery.

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

Professional Fees – These have been kept at low levels due to the establishment of good working practices with those providing the service.

Working Capital Loan – A loan of £250,000 from LB Lewisham was taken out in May 2015, as provided for in the original agreement. This will be repaid over five years.

Interest Rate on Outstanding Loans – The interest rate charged on the loan to the CRPL by the Council has been further reduced from 4.8% to 4.3% with effect from 10th May 2015. This reflected the continuing downward movement in interest rates and the reduced risks now that the company has been trading for over 5 years.

Operational Review 2016/17

Until a decision is taken on the vacant possession approach by the elected members of the Council, the 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. The CRPL believes that it is prudent therefore to base its 2016/17 budget projections on the current development target date of January 2018. All of the lettings and renewals have a rolling development break clause from this date.

However, as stated earlier, having a break date within less than two years of the lease commencement date discourages better covenant tenants and has detrimental effects to attracting a higher quality tenant to encourage footfall to the Centre. The CRPL will therefore be working towards putting back the break date by as far as possible in order to make its units more attractive to a wider range of users whilst taking into account the expected timescales of the proposed regeneration.

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, the 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.

The CRPL's strategic approach will help the company to become more financially resilient whilst also assisting the Council to further its regeneration and meet its corporate objectives. In doing this, the following areas will specifically be reviewed and additional professional advice sought 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.

Budget Review 2016/17

The CRPL is projecting a small budget surplus in 2016/17. This shows that the company is operating successfully and it is considered that this is a fair budget assumption given the 2015/16 outturn position. This surplus will be utilised to meet the deficits from previous years. It is based on the 2015/16 outturn and projects the running costs and rental income from the Catford Centre and adjoining properties.

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. It is expected that the income will not be significantly affected by a target vacant possession date after January 2018, due to the estate being nearly fully let.

The CRPL takes 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 to allow flexibility around future regeneration plans.

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 budget is based on actual spend figures for the previous service charge year, assumptions on increased costs and the renegotiation of service contracts. The accounts are externally audited to ensure that the CRPL is meeting all of the requirements of the service charge code. The expenditure for the 2015/16 service charge year (1 October - 30 September) is approximately £0.45m.

Repairs – The level of the CRPL repairs budget, which relates to anything that is not covered by the service charge, has been maintained at the level of previous years. Regular inspections are undertaken to ensure that all planned maintenance work can be undertaken. However a contingency has been allowed for unforeseen repair work.

APPENDIX A

CATFORD REGENERATION PARTNERSHIP LTD

PAST, CURRENT AND FUTURE YEARS BUDGETS

	2014/15 Final Outturn £000	2015/16 Original Budget £000	2015/16 Forecast Outturn £000	2016/17 Draft Budget £000
<u>INCOME</u>				
Lease Rents Receivable	1,115cr	1,080cr	1,124cr	1,100cr
Other Income	32cr	0	23cr	0
Service Charge Recoveries	142cr	140cr	91cr	52cr
TOTAL INCOME	1,289cr	1,220cr	1,238cr	1,152cr
<u>EXPENDITURE</u>				
<u>CRPL Costs</u>				
CRPL Employee Costs	91	84	32	0
LBL Staff Recharges	70	68	67	64
Letting and Renewals Fees	74	80	80	80
Property Purchase and Running Costs	170	130	130	130
Major Works, Repairs and Maintenance	163	80	120	100
Insurance Costs (Net)	11	30	16	18
Professional Fees and Misc Costs	60	10	20	20
	639	482	465	412
<u>Loan Repayments</u>				
Interest	616	553	510	496
Principal	113	132	211	218
	729	685	721	714
TOTAL EXPENDITURE	1,368	1,167	1,186	1,126
NET PROFIT (cr) / LOSS	79	53cr	52cr	26cr

APPENDIX B - Shareholder reserved matters

- 1 the 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.