
Catford Regeneration Partnership Ltd

Business Plan 2018/19

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 2018/19 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, 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. Officers from the Capital Programme Delivery Team as part of the Catford Regeneration Programme support the CRPL in relation to the regeneration aspects of their objectives. The in-house officers' time is recharged to the company as and when appropriate.

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 Executive Director for Resources & Regeneration, 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.

As the Catford Regeneration Programme continues to gain momentum during 2018/19, with the development of a Masterplan, it will become necessary for CRPL's shareholder reserved matters to be reviewed to reflect the role the company is likely to play in the regeneration effort. In this case, any suggested amendments will be brought to Full Council for approval.

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 2018 / 2019 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 all assets are realised through letting and renewal strategies, including meanwhile and interim uses, events and hires.
- To agree with the Catford Programme Board revised timescales for the regeneration programme for Catford Town Centre.
- 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.
- To implement the recommendations of the Internal Audit Report issued in May 2018

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
- Richard Lambeth - Accountant

Temporary agreements have been put in place for these agreements to see CRPL through to March 2019. During the period up till then each service will be retendered in an open market tender exercise.

Financial Review 2017/18

Overall the company budgeted for a surplus of £30k for the 17/18 financial year and the actual outturn shows a small credit due to increased security cost and non-recoverable maintenance.

Professional Fees – This covers surveying, legal and accountancy services. Cushman's annual management fee is c.£50,700 in 2017/18 and c.£52,000 in 2018/19. Other fees will vary based on lettings undertaken and concluded during the financial year

Interest Rate on Outstanding Loans – The interest rate charged on the loan to the CRPL by the Council remains at 4.3% with effect from 10th May 2015.

Operational Review 2017/18

Commercial Lease lettings and renewals – CRPL continue 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 two new lettings in the shopping centre during the past year, namely the Card Factory at unit 1 and Savers in unit 6, both bringing good shop fit-outs and known multiple retailer offers into the centre. In addition, Thomas Lane Depot, which has been vacant and derelict for a number of years has been let to Supersets. Supersets have invested significantly in the property and could be an exciting addition in the regeneration of Catford. As there is still no specific timetable for redevelopment at this point, we are continuing to offer leases for a term certain of up to 5 years. Although during the year as the masterplan process develops, consideration would be given to setting a date beyond which term certain leases can't be granted and break clauses should be introduced.

Also the Minimum Energy Efficiency Standard (MEES) which came into effect on 1st April 2018 will move to the next stage on 1st April 2023 and this will make it a legal requirement that all leased property must have an EPC rating of E or better or the lease will be null in void and the property become vacant unless the Landlord carry's out work to make them E or better beforehand.

There are currently 3 vacant units in the centre, units 2-3, 4 and 29, with interest being shown in all three. An offer to lease unit 29 has been received and is being progressed at a rate of circa £31psf. In the current context, this is considered a very good offer which sets the tone for expectations on the other units. No significant offers have been made yet in respect of units 2-3 and 4 however interest is growing and it is hoped offers will be received within the next 2 to 4 weeks. Although there is interest, as yet no significant offer has been received on 148 Rushey Green which became available following the vacation of Vodafone. This unit falls outside the redevelopment boundary for the masterplan and should elicit an offer to lease for 10 years.

Residential leases and renewals – CRPL hold a number of self-contained residential flats situated above the commercial shops. The majority of these are leased on assured shorthold tenancies (ASTs) with two leased to the Council's Private Sector Lettings team. There is one renewal due during the year and this will be renewed and one at number 14 will be let on the open market at market rent following the implementation of some minor works.

The current overall annual rental income for the CRPL portfolio is £945k. This is broken down as £520k from the shopping centre, £52k from the market stalls, £276k for the other commercial properties on the Broadway and Rushey Green and £95k for the residential. It is expected that this will grow over the coming year as a result of new lettings particularly 17-18 Catford Broadway which will generate in excess of £130,000pa and which will come on stream at year end 2019. The big effect this year on value/income has been a reduction in the valuation as a result of allowing Poundland to stop paying rent. A number of developments This will be corrected in 2018-19 thanks to letting progressed in 2017/18.

Operational Preview 2018/19

General Items – we will be working hard to maintain tenancies whilst minimising service charge expenditure so that tenants want to occupy on short term tenancies. Until the masterplan is developed the development timeline becomes clearer, 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. For the time being all new lettings and renewals that fall within the development scheme are being renewed on the basis of 5 year lease excluded from the Landlord and Tenant Act 1954. The current approach is to continue to offer 5 year leases but subject to a Landlord only break for redevelopment at any time after 1-07-2023

In line with the Company's objects (section 2 - Articles of Association) to carry on a business that will improve the economic, social and environmental wellbeing 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 help the company to become more financially resilient whilst also assisting the Council to further its regeneration and meet its corporate objectives.

17 and 18 Catford Broadway – These properties comprise ground floor commercial units with residential above. Both properties are vacant and require significant capital investment. Tsuruta Architects have been appointed and have devised a redevelopment / refurbishment scheme for both properties which is currently in for planning consent. The refurbished units both residential and retail will produce an annual rental income of between £130,000 and £140,000 per annum and produce a capital value of circa £2,000,000. The investment required for both units is circa £750,000.

Brookdale Club– Securing a letting of the Brookdale club has proven difficult with several offers having fallen through. Negotiations are currently well advanced with an operator for a proposed music venue. Other options are also being considered in case the current offer does not proceed. A property guardianship service is being explored as an alternative interim measure to the current high cost of manned security at the premises. A further alternative may be to seek to progress an early demolition of the site if cost effective beneficial interim uses cannot be secured.

Constitutional Club – The lease of the premises ends in September 2018. The property has been part occupied for 5 years by Pubola Ltd who have paid no rent and done minimal works to the unit. A condition survey report has recently been completed for the property and shows that the property needs significant investment to make it wind and water tight. A part of the property, which is locally listed, is in a dangerous state and has been closed off. The current estimated investment requirement is approximately £1.75M with a minimum investment requirement of approximately £300k to make the building wind and water tight. CRPL will therefore be seeking £300k in the coming year to work up (a) scheme to develop a refurbishment that will retain the major listed facades and extend the floor plate to provide a viable scheme and (b) carry our minimum repairs to secure the structure and make wind and water tight.

Budget Preview 2018/19

CRPL is projecting a very small credit in 2018/19 as a result of the additional borrowing of £1,250,000 proposed here. This shows that the company is operating successfully and it is considered that this is a fair budget assumption as it is carrying out investment that will pay off with increase in value in later years. However the value will diminish the closer we move to implement the redevelopment that will create the real value for London Borough of Lewisham and CRPL.

CRPL is seeking additional loan funds in order to redevelop 17-18 Catford Broadway to bring it back into use and increase its value which is currently at circa £600,000. Sums are also being sought for repairs to the Constitutional Club and the formation of a design team to work up a major redevelopment along the same lines as 17-18 Catford Broadway as well as miscellaneous expenditure needed during the year.

Rental and Service Charge Analysis – Regular meetings are held with our managing agents, Cushman and Wakefield to review such items as management and letting strategies; rental income and arrears; service charge and expenditure; maintenance and repairs;

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 CRPL is meeting all of the requirements of the service charge code. The service charge year runs from the 1st October and the total expenditure up to 30th September 2017 was circa £390,000 and is still to have its audit finalised. The service charge budget for 2017/18 is £480,000 and we understand it is on course to finish at this level. The Budget for 2018-2019 has not been set yet but is likely to be in the order of £500,000 as a result of wage inflation.

We will be retendering all professional services contracts during H2 of 2018 and some fees will go up Managing Agents fee and Accounting fee whilst the other professional services fees will be about the same level but will depend on lettings and rent reviews undertaken in the year.

APPENDIX A

CATFORD REGENERATION PARTNERSHIP LTD

PAST AND CURRENT YEARS' BUDGETS

	18-19 Business Plan			
	2016/17 Final Outturn £000	2017/18 Original Budget £000	2017/18 Forecast Outturn £000	2018/19 Original Budget £000
<u>INCOME</u>				
Loan income	-	-	-	-
Lease Rents Receivable	1,084cr	1,100cr	958cr	1,250cr
Look to increase Other Income	-	-	-	-
Service Charge Recoveries	40cr	40cr	40cr	40cr
TOTAL INCOME	1,124cr	1,140cr	998cr	2,150cr
<u>EXPENDITURE</u>				
	-	-	-	-
<u>CRPL costs</u>				
CRPL Employee Costs	5	5	5	5
LBL Staff Recharges	50	50	50	50
Letting and Renewals Fees	53	90	47	65
Property Running Costs	174	110	183	210
Major Works, R & M	27	50	65	70
Major Works	-	50	-	1,000
Property Purchase Costs	-	-	-	10
Insurance Costs (Net)	19	20	10	20
Fees and Miscellaneous	22	20	9	20
	350	395	369	1500
<u>Loan Repayments</u>				
Interest	507	530	529	570
Principal	210	185	87	70
	717	715	616	640
TOTAL EXPENDITURE	1,067	1,110	985	2,140
NET PROFIT (cr) / LOSS	57cr	30cr	13cr	10cr

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.