KEY DECISION

Mayor and Cabinet

Catford Regeneration Partnership Limited (CRPL) Update

Date: 24th January 2023

Key decision: Yes

Class: Part 1

Ward(s) affected: Rushey Green / Catford South

Contributors: Director of Inclusive Regeneration; Director of Finance; Head of Property, Estates and Capital Programmes.

Outline and recommendations

The report seeks Mayor and Cabinet's review of the latest operating position of CRPL and asks Mayor and Cabinet to note the need for additional support through shareholder action to ensure the company continues to manage its portfolio in accordance with the objectives agreed at its inception.

Timeline of engagement and decision-making

- September 2021 – Three-year CRPL Business Plan was approved M&C.
- May 2023 – Appointment of new Director by Mayor and Cabinet
- September 2023 – Appointment of two new Directors by Mayor and Cabinet

1. Summary

1.1. The Catford Regeneration Partnership Limited (CRPL) is a wholly owned company 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 assets to improve the economic, social and environmental wellbeing of the people of the London Borough of Lewisham.

1.2. The delivery strategy for the overall Catford Framework plan is currently being developed and it is expected that the Catford Centre would form part of the latter phases of development plans. In the meantime, a combination of factors including the slow recovery post pandemic and other macro-economic factors are impacting many businesses in the centre and in turn, the value of the assets and the company's ability to fulfil some its own obligations, including paying down the loans and interest owed to the Council.

1.3. This report provides some background to the company's current operations as well as the macro-economic and local context within which it operates. It outlines the company's current cashflow position over the short-term and sets out the need for some financial support from the Council as its shareholder and the need for the Council to affirm its parent company guarantee status in order to secure CRPLs operations in the immediate future.

2. Recommendations

Mayor and Cabinet is asked to:

2.1 Note the current operating position of the company including the latest cashflow projection and associated assumptions.

2.2 Agree that the Council, as sole shareholder of CRPL, continue to provide additional financial support to the company through parent company guarantee to enable it to continue to manage and operate the assets within and around the Catford Centre.

2.3 Agree a further deferment of loan interest payments and capitalisation on the current loan for a further two years to 2026 to enable the company to stabilise its cashflow.

2.4 As part of the wider Catford Town Centre Regeneration plan, to agree the disposal of the former Thomas Lane Depot site and delegate authority to the Executive Director of Corporate Resources, in consultation with the Executive the Director for Place, to agree final terms of the disposal. The receipt from the disposal will be used to pay down part of the loan with the Council and help stabilise the Company's cashflow in the short-term.

2.5 Note that the outcome of an ongoing review of the Company together with a new Business Plan detailing further efforts that the company will be making to ensure it continues to operate the centre in a manner that remains consistent with the outcomes agreed at its inception will be reported to Mayor and Cabinet in due course.

3. Policy Context

3.1 The Local Authority has a duty to ensure the long-term growth of its town centres is planned and managed, to ensure that viable and vital functions of its town centres are integrated as part of a sustainable development strategy.

3.2 The Council's Corporate Strategy (2022-2026) outlines the Council's vision to deliver for residents over the next three years. Building on Lewisham's historic values of fairness, equality and putting our community at the heart of everything we do, the Council will create deliverable policies underpinned by a desire to promote vibrant communities, champion local diversity and promote social, economic and environmental sustainability.

3.3 Furthermore, the Council's Local Development Framework sets the vision, objectives, strategy and policies that will guide development and regeneration in the borough to 2026 and together with the Mayor of London's 'London Plan', forms the statutory development plan for the Borough. It anticipates major change and includes a focus on Catford Town Centre as a major development opportunity. The London Plan reinforces this view by identifying Catford as having potential for significant urban renewal.

3.4 In July 2021 Mayor and Cabinet agreed the Catford Town Centre Framework (CTCF). The framework sets out a long-term strategy for the transformation of the town centre over the next 15-20years. The delivery programme for the CTCF is currently in development and will be reported to Mayor and Cabinet in the new year.

3.5 CRPL's core objectives accord with the above. This report is therefore set against this policy background in outlining the support required by CRPL to ensure it can continue to effectively manage its assets in a way which supports the delivery of the Catford Town Centre Framework.

4. Background and Narrative

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

4.2. At the company's inception, the current Articles of Association were agreed. These detail how and when the company must interact with its shareholders. In this case it is Lewisham Council, which is the sole shareholder. Changes to the business plan and budget which details activities of the company for a given period are responsibilities of the shareholder as set out in the Articles of Association.

4.3. The company was tasked with the following core activities at its inception:

- To continue the effective management of the Catford Centre, 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 of the Catford Centre by working with Lewisham Council to undertake a regeneration process and reach a commercial agreement with key stakeholders in the town centre, in order to contribute to the regeneration aims for the town centre as a whole.

4.4. The shopping centre comprises a number of retail tenancies (some of which are double units). There are a number of units outside the main centre located on the Rushey Green as well as Catford Broadway. The portfolio also includes a number of flats let on ASTs. Altogether, the portfolio has an annual rent roll / income of approximately £1M.

4.5. The 2023 interim valuation at the end of October estimates a valuation of the CRPL portfolio at **£17.383M**. This is against a long-term debt in the form of a loan from the Council with an estimated outstanding balance at 31 March 2024 of approximately **£16.934M**. The assets are valued annually, and the next valuation is expected at the end of March 2024. In 2021 Business Plan, the Council agreed that loan and interest repayments will be frozen for 3 years from 2020-2023, restarting again in 2024/25. The Council does not have to charge MRP (Minimum Revenue Provision - repayment of the loan capital) on the loan for 2023/24 or 2024/25 as per the proposed MRP Guidance 2024.

4.6. The current status of the wider Catford Town Centre Regeneration Framework plan agreed by Mayor and Cabinet in July 2021 has implications for the operations of the company. As a result of this, further changes are likely in the nature and form of CRPL's operations in the medium term as the delivery structure for the framework begins to take shape.

4.7. In the meantime, the Company continues to manage the property portfolio in accordance with the objectives agreed at its inception and the annual business plan approved by the Council. This is done by the two directly appointed Directors and their appointed managing agents as well as support staff from the Council's Property and Estates team.

4.8. Although the company is currently relatively stable in-year and retail market conditions continue to improve post pandemic, the pace is slower than expected. This means the company continues to deal with a number of short-term challenges which are impacting its operations and cashflow position.

4.9. A number of these challenges are highlighted below:

4.9.1. <u>Economic Climate</u>: The effect of the current economic climate is a very challenging environment for commercial tenants and individual households. Although some key indicators, such as inflation has started to improve, overall recovery is slow. The CRPL portfolio, has to date, fared well, with a relatively low void rate however, the impact of COVID and the slow economic recovery continue to be felt through rent and service charge payments.

4.9.2. <u>Rent and Service Charge Arrears</u>: Managing the post COVID level of arrears of rent and service charge, currently in the region of £1.2M, is posing a challenge to the company's cashflow. Although some tenants have repayment plans and have started to pay down their debt, the significant size of both arrears is adversely impacting the company's cashflow and ability, in the short-term, to fulfil its own obligations including paying down its loans with the Council. Further, based on the current combined rent and service charge arrears and the prevailing economic conditions, it seems likely that CRPL will need to forego a significant proportion of the arrears currently owed. Every effort is being made to collect all arrears and most businesses have some form of payment plans in place, however, it is prudent to assume that not all arrears may be collected.

4.9.3. <u>Loan and Asset Value</u>: As part of the current Business Plan, the company agreed a short (3-year) deferment of the interest and repayments on loans from the Council to enable it to stabilise its cashflow due to the impact of COVID. The deferment ends in April 2024 and the company will be expected to resume repayment of the loan and interest due to the Council. A consequence of the high arrears owed to the Company is that it is not able to fulfil its own obligations in paying down the loan owed to the Council. Further, although the current asset to loan value remains marginally positive, the compounding interest could push the assets into negative equity if values don't improve significantly and/or tenants don't keep up repayments of arrears owed.

4.10. The challenges above are key a consideration in the summary cashflow projection of the company set out below for 2023-2026. An updated and detailed cashflow will be provided as part of the Business Plan report to Mayor and Cabinet in due course.

<u>Summary cashflow projection for 2023-2026</u>

	2023 - 24	2024-25	2025-26
Total Income	£955,668	£960,024	£1,079,216
Total Expenditure	£947,036	£990,796	£1,057,509
Net Income/Expenditure	£8,632	£-30,772	£21,708
Cash Available/brought forward	£95,597	£104,229	£73,457
Profit(cr)/ Loss	**£104,229**	**£73,457**	**£95,165**

4.11. The above cashflow is based on the current rental income base or passing rent of the portfolio and assumes that approximately 90% of all rents for the respective years will be collected. It assumes further, that none of the current arrears owed in the form of rent and service charge arears will be collected, both of which reflect the difficulty CRPL has collecting rental income and service charges. However, tenants are starting to pay back arrears, and every effort will continue to be made to collect the outstanding arrears which will all go towards improving the overall cashflow. Further, the cashflow does not assume a receipt of the Thomas Lane Depot site. In any case, if the disposal is approved, the receipt will be used to pay down the loan owed to the Council.

4.12. Thomas Lane Yard Development:

4.12.1. The Council is looking to bring forward its planned development of Thomas Lane Yard car park and depot site. The mixed used scheme on the site north of Catford Broadway will deliver new affordable homes, enhance outdoor space, new jobs and commercial space (including affordable workspace). The majority of the land required for the development is in Council ownership, however key sections including the former Thomas Lane Depot (currently let to Supersets, a film set production company) and a strip of land behind the row of shops on Catford Broadway, are in CRPL ownership. Achieving a full Council ambition for the site will require the inclusion of the sites currently in CRPL ownership.

4.12.2. To that end, discussions are underway between the Council and the CRPL on the potential acquisition of the two CRPL interests stated above. This will ensure that the Council has all the land interest it needs to complete the development. The Articles of Association agreed at the inception of the company makes clear that acquisitions and disposals of assets in excess of £25,000 not currently included in a given year's Business Plan is a shareholder reserved matter. The current market value of each of the sites exceed £25k, therefore Mayor and Cabinet (Shareholder) approval is required to dispose of the sites to enable the redevelopment of the Thomas Lane Yard project to proceed. The receipt derived from the disposal will be used to pay down the current loan with the Council.

4.12.3. The disposal will mean a potential reduction in the total value of the CRPL asset portfolio because of the loss of these two asset interests. The strip of land behind the row of shops does not generate any income to CRPL however, the disposal of the former Thomas Lane Depot building, which currently generates an income of £58,224, will mean a reduced income to the company. The loss of income is likely to impact the company's cashflow in the short term however the portfolio is forecast to achieve some modest rental growth in the medium term in the form of lease renewals, new lettings etc which will help reduce the overall impact of the loss of the Depot. Also, it is anticipated that CRPL will continue to receive income on the asset until such time that vacant possession is required sometime in 2025.

4.13. Governance Review:

4.13.1. The Company has been active since 2010 and in that time, the purpose and governance arrangements have been unchanged. A review of the aims, purpose of and governance arrangements of the company in light of the development of the delivery strategy for the Catford Town Centre Framework Plan which is in development and will be brought forward for Mayor & Cabinet consideration in due course. This is particularly pertinent to allow the Council to consider whether there are other routes through which it can deliver its ambitions for Catford.

4.13.2. To this end, a review has been commissioned by the Director of Law and Corporate Governance which will amongst other things, consider the purpose of the company and its effectiveness, governance and relationship with the Council. The review will also consider options for the future operation of the company.

4.13.3. Specifically, the review will focus on three key areas namely:

4.13.3.1. Purpose – The company is currently set up for general services so has a lot of flexibility. However, in light of the Council's wider ambitions for the framework plan, it is now necessary for the Council to consider the overall purposefulness of the current structure of the company in meeting those ambitions.

4.13.3.2. Governance - Clarity of the Director role in line with the company's articles and all relevant statutory requirements including: compliance and accountability.

4.13.3.3. Operations – Effective day to day running of the company through agencies, contracts, delegations, spend controls etc.

4.14. Parent Company Guarnantee:

4.14.1. More generally, progress continues to be made on early stages of implementation of the agreed Catford Town Centre Framework plan including the development of a delivery strategy which will set out how the Council's ambition for the Town Centre will be delivered over the next 15 – 20 years. In the meantime there remains growing expectations of the company, given its controlling land interests and their being central to the future regeneration of the town centre which will require clear distinction between what are Council decisions and actions and those of the company, and the related reputational risks. Further, enabling the delivery of the regeneration objectives of the Council may also require the company to absorb more non-commercial priorities on behalf of the Council.

4.14.2. The Council's recovery of the current and outstanding loan to CRPL is assumed to be recoved through the Catford development plans. The Council's town centre framework sets ambitious objectives for the delivery of affordable housing and civic provision, which are likely to present viability challenges. Therefore there is a risk that the recovery of the Council's current loan to CRPL may not be recovered based on the emerging development assumptions. This in turn would have an impact for the Council's reserves and require an additional annual cost of funding this opportunity. These impacts are not assume within the Council's current budget and will be the subject of separate Mayor and Cabinet consideration as the Catford delivery business case is further developed.

4.14.3. The latest valuation of the Company's assets places the value quite close to the current value of the loan which the Company holds with the Council and while the projected cashflow suggests some liquidity for operations, it is likely that at some point, the value of the loan may exceed the value of the current asset base - a position of 'negative equity'. In that scenario, the company will require some form of guarantee or support from its Shareholder (the Council) in order for it to continue as a going concern. This will be in the form of Parent Company Guarantee (PCG). The PCG will enable the Council to underwrite activities of the company and ensure that it can continue to meet its obligations of holding and managing the assets in a way which remains consistent with the Council's objectives in the event of negative equity.

5. Financial Implications:

5.1. The estimated value of the loans and rolled up interest to CRPL as at 31 March 2024 is £16.934m. The Company is seeking to continue to defer the payment of the interest and principal for a further two years, and based on this it is forecast that the closing balance at 31 March 2025 would be £17.663m and £18.423m by 31 March 2026.

5.2. Whilst the current (October 2023) valuation of the Company's assets is £17.4m, and therefore exceeds the forecast value of the loan and interest as at 31 March 2024, the value of the Company's assets may increase or decrease when next valued as at 31 March 2024. Therefore, there is the risk that in 2024/25 the value of the loan and interest will exceed the value of the assets.

5.3. The loan between the Council and the Company is not a commercial loan and therefore, as set out in paragraph 4.5, in the event that the loan exceeded the value of the assets, under the proposed guidance the Council would not be required to make a Minimum Revenue Provision adjustment. However, under accounting standard International Financial Reporting Standard 9 (IFRS 9), authorities must account for expected or actual credit losses on loans, and therefore it is possible that in 2024/25 the Council would need to account for any Expected Credit Loss, via the creation of a provision in its accounts.

5.4. As this is only a risk that has not materialised the quantum of this cannot be provided at this point in time as it is based on a number of factors and variables which are subject to change. This will be kept under review in 2024/25 and reported back in the next report on the Company.

5.5. The receipt from the sale of the Thomas Lane Yard assets will be utilised to reduce the rolled-up interest on the loan but will also reduce the total valuation of the Company's assets, and is therefore considered not to effect the financial risk profile as set out above.

5.6. As set out in paragraph 4.14, the Company is seeking a Parent Company Guarantee from the Council which will enable it to continue as a going concern. It will also make the Council explicitly liable for the Company's potential losses, including that of the value of the loan. Therefore, in addition to the potential financial impact of any future Expected Credit Loss provision that the Council may need to make, the provision of the PCG further increases the potential financial exposure of the Council. As discussed above, the Company's assets are integral to the Council's wider ambition for the Town Centre redevelopment and therefore it is considered necessary that it extends this guarantee to the Company at this point but notes the accompanying financial risk.

6. Legal Implications

6.1. All relevant legal matters have been addressed in the main body of the report.

7. Equalities implications

7.1. There are no immediate equalities implications directly arising from this report.

8. Climate change and environmental implications:

8.1. None specific to this report.

9. Crime and disorder implications

9.1. None specific to this report.

10. Health and wellbeing implications

10.1. None specific to this report.

11. Background papers

11.1. None

12. Report author and contact

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