

<b>Committee(s):</b> Property Investment Board (PIB) – For Information Corporate Asset Sub (Finance) Committee (CASC) – For Information	<b>Date(s):</b> 20 March 2019 04 April 2019
<b>Subject:</b> Business Progress Report 2018-23 - Quarter 3 2018/19	<b>Public</b>
<b>Report of:</b> The City Surveyor (CS069/19)	<b>For Information</b>
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### Summary

This report provides details of progress in quarter three (October – December) 2018/19 against the 2018-23 Business Plan, an update on the commercial property market, and a financial statement.

Of the 21 Key Performance Indicators (KPIs) that are being monitored, ten were assessed as green, on target, and four indicators were assessed as amber, marginally behind target. Six indicators are not reported at quarter three as they are either assessed annually, or every six months. Energy consumption (KPI. 5) figures are routinely reported a quarter in arrears and the quarter two result was ahead of target.

The amber cases are as follows:

- KPI. 2 Delivery of strategic asset plans – Corporate Property Group (PIB & CASC)  
Target: 100% by end 2018/19  
Phase two is currently under development. Progress has been delayed by the other casework priorities and staff vacancies.
- KPI. 3 Service Based Review (SBR) savings (PIB & CASC)  
Target: £884,000 for 2018/19  
Anticipated shortfall due to Central Criminal Court maintenance restructure savings for 2018/19 (£9k) and the changed delivery model for Guildhall Security (£150k). Savings of £76k for the Central Criminal Court maintenance restructure for 2017/18 have also yet to be achieved.
- KPI.6 Space utilisation (CASC)  
Target: Net Internal Area (NIA) per FTE - 7m<sup>2</sup> by end 2018/19  
The average space per FTE is down to 7.8m<sup>2</sup>, but to achieve the target, staff moves from Walbrook Wharf need to be concluded. This may be delayed to 2019/20 due to additional complexity.
- KPI. 7 Property contract performance compliance (CASC)  
Target 90% achieved 83%  
Challenges remain with the Security, Lift and Escalator, and Catering Contracts which have resulted in failed KPIs for each one. Each contract has an action plan in place to remedy the KPI failures.

## **Recommendation**

Members are asked to note the content of this report.

## **Main Report**

### **Background**

1. In line with the City Corporation's performance management system, this is a quarterly report on the progress made over quarter three (October to December) compared to the 2018-23 Business Plan.

### **Current Position**

2. This report provides the latest budget information which is set out in Appendix A and performance indicator table in Appendix B. Furthermore, charts that your committee are particularly interested in are included in Appendix C.
3. A separate monitoring report on the risks within our department is also presented at this meeting.

### **Market Commentary**

4. Despite the expected global slowdown and the ongoing Brexit uncertainty dominating the headlines, the UK economy has returned moderate growth after some mid-point volatility last year. The labour market continues to be the source of positive news as job growth is sustained and earnings rise, whilst inflation is falling, which is supporting consumers and economic resilience. December surpassed expectation with 658,728 sq ft being transacted across 45 deals. This resulted in October – December 2018 take-up reaching 2.4m sq ft, which was the largest single quarter of take-up since July – September 2014. This shows a willingness by London businesses to commit their futures to the capital despite the current political and economic uncertainty.
5. Pre-letting activity remained a prominent feature of the market – 60 pre-lets were recorded over calendar 2018, marginally up on 58 the year prior. The Media-Tech sector remains the dominant driver of demand across Central London accounting for 19%. The Serviced Office sector follows accounting for 13%. The Banking and Finance sector recorded a 13% share. Strong levels of take-up have meant the vacancy rate has fallen to 5.0% over October – December 2018. This is down from the 5.7% seen in the quarter prior, and 6.2% 12 months ago, and will be the driving force of rental growth in 2019.
6. The largest development to complete during the quarter was 2 Southbank Place, SE1 (283,500 sq ft), which was pre-let in its entirety to WeWork. At the end of December, there was 13.7m sq ft of space under construction across Central London, of which 52% had already been pre-let or was under offer at the end of the quarter.
7. Prime rents increased in the City by £1.00psf to £69.50psf and in the Docklands by £0.50psf to £48.50psf, increasing the gap between prime and secondary rents.

Rental values also increased in the City Fringe markets of Clerkenwell / Farringdon (by £2.50psf to £75.00psf) and Shoreditch / Old Street (by £1.50psf to £70.00psf). Rental values were unchanged in all other Central London markets and submarket.

## Financial Statement

8. The 2018/19 quarter three figures reveal that against a latest budget of £31.2m, the City Surveyor is forecasting a year-end overspend on local risk of £993k (3.2%). This is a reduction of £754k from the anticipated overspend of £1,747k at the end of the second quarter.
9. This improvement is in part due to the net budget allocation of £515k for the Building Repairs and Maintenance asset verification, and £150k for security savings that can no longer be made due to the change in the security business model. Savings in other areas have been made, but to date this has been offset by increased reactive repairs spend.
10. The principal area of overspend is the additional expenditure on employee costs, energy, and on repairs and maintenance at the Guildhall complex. The extra staffing costs relate mainly to additional security staff, whilst the energy costs reflect the 30% increase in energy prices from October. The extra repairs and maintenance spend is due to a higher level of essential reactive maintenance and works being undertaken than had been anticipated in the budget.
11. The departmental budget is also overspent, principally due to a shortfall in professional fee income as a result of fewer major deals this year, is contributing to the adverse position. The forecast assumes that known deals, such as 22 Bishopsgate, will complete before 31st March 2019 but there remains the possibility that some may slip into 2019/20. This could exacerbate this year's overspend.
12. The Surveyor is continuing to bear down on costs, and efforts are being made to minimise the overspend at year-end.
13. On a more positive note, rental income, shown under central risk, is up on the year with the latest rental forecast anticipating £130.3m. This compare with an original budget of £122.4m.

## Overall Progress

Status <sup>1</sup>	Green	Amber	Red	TBC	N/A
Corporate Asset Sub Committee	7	4	0	1	5
Property Investment Board	9	2	0	0	6
Overall <sup>2</sup>	10	4	0	1	6

<sup>1</sup> Red = High Risk of Failure or Not Achieved; Amber = Some Concern; Green = On Target or Achieved.

<sup>2</sup> Some KPIs relate to both PIB and CASC. Therefore, row indicating KPIs overall is not a total of the PIB and CASC rows.

14. Of the 21 Key Performance Indicators (KPIs) that are being monitored, ten were assessed as green, on target, and four indicators were assessed as amber, marginally behind target. Six indicators are not assessed at quarter three, either being annual or six-monthly measures. Energy consumption (KPI. 5) figures are routinely reported a quarter in arrears, the quarter two result was ahead of target.

15. The amber cases are as follows:

- KPI. 2 Delivery of strategic asset plans – Corporate Property Group (PIB & CASC)  
Target: 100% by end 2018/19

The objective is to analyse Corporate Asset Strategies to make sure that they are up-to-date and fit-for-purpose, with a report to CASC on phase two by March 2019.

Phase one has been completed. Phase two is still being developed. Progress has been delayed by the other casework priorities and staff vacancies. The support of major transformation programmes has been the key focus within the department at present.

- KPI. 3 Service Based Review (SBR) savings (PIB & CASC)  
Target: £884,000 for 2018/19

This comprised of:

- £400k BRM contract
- £40k deletion maintenance post at Walbrook Wharf
- £9k Central Criminal Court maintenance restructure
- £235k Barbican/GSMD FM restructure
- £200k Guildhall security

The majority of the above savings have been successfully delivered and budgets have been adjusted accordingly.

There is £85k outstanding relating to the Central Criminal Court (CCC) maintenance restructure (£9k for 2018/19 and £76k for 2017/18). The City Surveyor's Department is supporting the CCC to meet this target.

The £200k Guildhall security target has not been met in its entirety (£150k outstanding). Following the budget setting process, the delivery model was changed – outsourcing to better resourced in-house provision with less overtime – and the full quantum of savings could not be made. Finance Committee agreed to provide an additional £150k to the department to account for this change in approach.

- KPI.6 Space Utilisation (CASC)  
Target: Net Internal Area (NIA) per FTE - 7m<sup>2</sup> by end 2018/19

The average per FTE is down to 7.8m<sup>2</sup>, but Walbrook Wharf moves are still to be concluded. These are necessary to meet the 7m<sup>2</sup>/FTE target figure. The moves are expected to conclude in 2019/20 due to the complexity involved.

- KPI. 7 Property contract performance compliance (CASC)  
Target 90% achieved 83%

Challenges remain with the Security, Lift and Escalator, and Catering Contracts which have resulted in failed KPIs for each one. Each contract has an action plan in place to remedy the KPI failures.

We are also in the process of re-tendering two of the contracts which could have some influence on the incumbent contractors' present performance.

- The lift and escalator contract has an approved bidder, selected after tender, and we are currently going through the City's governance process. The contract will start on the 1st July 2019 with mobilisation beginning on the 1 May 2019. The current provider has submitted a compliant tender and is part of the process.
- Tenders for the security contract are currently being evaluated with the result expected to go through the governance process in May 2019, with the contract starting in September 2019 after a period of mobilisation. The current provider did not pass the initial stage of assessment hence they are already aware that they will not be winning the new contract. This makes this contract more challenging to manage, however the action plan in place will assist with ensuring they provide the correct service until handover begins.

## **Conclusion**

16. This report provides an update at quarter three against the department's Business Plan KPIs. Performance is positive overall, with action in place to manage those items falling behind target.

## **Appendices**

- Appendix A – Budget Monitoring Statement
- Appendix B – Key Performance Indicator Table
- Appendix C – Headline Performance Charts

## **Background Papers**

The City Surveyor – Business Plan Progress Report Quarter One (CS 368/18)

The City Surveyor – Business Plan Progress Report Quarter Two (CS 478/18)

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