Committee(s)	Dated:
Property Investment Board Corporate Asset Sub Committee	December 2020 January
Subject: Business Plan 2020-25 Quarter 2020/21	**Public**
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	**4, 7, 12**
Does this proposal require extra revenue and/or capital spending? N/A	**N**
If so, how much? N/A	**N/A**
What is the source of Funding? N/A	**N/A**
Has this Funding Source been agreed with the Chamberlain's Department? N/A	**N/A**
Report of: The City Surveyor (CS 416/20)	**For Information**
Report author: John Galvin / Faith Bowman Business Performance and Improvement	

Summary

This report provides Members of Property Investment Board (PIB) and Corporate Asset Sub (Finance) Committee (CAsC) details of progress in quarter 2 (June to September) 2020/21 against the 2020-25 Business Plan as well as an update on the commercial property market and a financial statement.

At the time the Business Plan 2020-25 was approved by committees (PIB in December 2019 and CAsC in January 2020), it was envisaged to monitor all the seventeen Key Performance Indicators (KPIs) using the Red Amber Green (RAG) assessments.

The changed external environment has shifted the department's priorities in the short-term. There has been much greater emphasis on tenant retention, in both the investment and corporate estates. This is expected to continue into calendar 2021.

Our capacity to deliver projects has also been compromised, as social distancing has placed a lower limit on productivity. We are now measuring our sites productivity and will be reporting this through to Members.

Members should note that we will continue to report through our KPI performance against all the 17 agreed measures.

Of the seventeen KPIs that are being monitored, ten were assessed as green (on target) and two indicators were amber (marginally behind target). Three items will not have a RAG assessment made, and two further measures will be assessed throughout the year.

The amber indicators were the following:

- KPI. 1 – Asset realisation and additional income (CAsC)
- KPI. 3 – Space utilisation (CAsC)

The City Surveyor is currently forecasting a year-end overspend of £277k on a budget of £32.429m (0.85%). This is as a result of a shortfall in professional fee income, fundamental review savings being placed on hold awaiting the target operating model, and the 2019/20 departmental overspend being brought forward.

Recommendation(s)

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 during quarter 2 (June – Sept) compared to the 2020-25 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. In addition, you receive regular monitoring reports covering rent reviews, lease renewals, arrears, vacancies and delegated decisions. These provide key indications of the current market situation, particularly for directly managed properties.

4. A separate monitoring report on the risks within our department is also presented at this meeting. This includes a specific appendix on risks relating to Covid-19.

Financial statement

5. Appendix A reveals that the City Surveyor is projecting an overspend of £277,000 against the latest budget of £32.429m (0.85%). This overspend is mainly due to reduced professional fee income as a result of the pandemic; an overspend on salaries as fundamental review savings anticipated in the budget are on hold pending the Target Operating Model; and the overspend from 2019/20 carried forward to be recovered for this year's budget.

6. These additional costs have in part been offset by savings due to lower occupancy of premises, principally the Guildhall, as a result of Covid-19. The City Surveyor is reviewing his expenditure plans with the aim of eliminating this deficit at year-end.

Market commentary

7. For the occupier market, JLL reported that central London office take-up in the June to September quarter totaled 0.9 million sq ft. This was down from 1.1 million sq ft in the three months prior, and 64% below the 10-year quarterly average (2.6 million sq ft). The last quarter was the lowest figure recorded since January – March 2009. The impact of COVID-19 can be seen in subdued leasing activity

across all the London sub-markets. There is more confidence in the pre-let market, which accounted for 22% of the quarterly take up, where large occupiers are taking a long-term view. At least one significant pre-let has recently gone under offer on a new office scheme within the City core. This suggests talk of the demise of the office is wide of the mark even if a degree of remote working remains post the pandemic. Without doubt ‘wellness’ will rise further up occupiers’ agenda - developers and investors will need to reflect this in their schemes. The days of dense occupation which put a strain on building services like ventilation systems look to be over for now and the next generation of building will need to be enabled to cope with the technology required for a mixture of physical and remote working.

8. The vacancy rate has hit 5.9% and remains above the 10-year average of 5.0%, however, the vacancy rate for new stock is stable at 0.8% and remains below the 10-year average of 1.1%. There has been a noticeable increase in tenant space being released back to the market since the national lockdown and this trend is likely to continue but it is hoped that shortages of speculative supply will dilute the impact. In respect of the retail sector a significant number of tenants are struggling to pay rent on existing sites and are turning to their landlords for assistance. On a positive note, in the West End, Colliers has reported that some retailers are acquiring new stores initially on a turnover basis. An increase in the number of retail businesses entering administration was seen in the six months from April which again is a trend which is expected to continue – especially among A1 food operators. COVID-19 has accelerated the rise of internet shopping and the need for retailers with high street and City centre units to be more experiential and service-based to prosper.

9. COVID-19 continues to cast a shadow over the central London office investment market. According to JLL, £1.1 billion was transacted in the three months to September which is 71% below the 10-year quarterly average of £3.7 billion. Year to date investment volumes stood at £4.0 billion significantly below the 10-year annual average of £15 billion. A stronger final quarter is anticipated with circa £3 billion of stock currently under offer.

10. JLL’s Prime City yield is 4.00%, which compares with the West End prime yield of 3.75%. Prime rents in the City have fallen marginally to £72.50 psf and rent-free periods have moved out to 27 months on a 10-year term. In the West End the prime rent has remained stable at £117.50 psf although rent-free periods have moved out to 24 months on a 10-year term.

Quarter 2 2020/21 update
Coronavirus

11. Ordinarily the department would report a RAG status against all its seventeen KPIs. This is based upon performance against target, or expected, performance. The Covid-19 pandemic has altered our capacity to target set many of our measures, particularly in relation to the investment estate. The current level of uncertainty is such that it is not possible to accurately predict what ‘good’ performance looks like.

12. Whilst many KPIs will be impacted by Covid-19, the ones that will not be RAG assessed this year are as follows:

A. KPI. 11 – Rental forecasts
B. KPI. 12 – Minimise arrears
C. KPI. 13 – Minimise voids

13. KPI. 1- asset realisation and additional income is also anticipated to be impacted by Covid-19. This item is principally delivered by our Corporate Property Group. Over the last six months their focus has been on tenant retention and lease negotiations. This has limited their capacity to progress asset realisation activities.

14. The department will be tracking an additional performance measure whilst the coronavirus situation continues. This indicator relates to the productivity of our project sites, and compares this to national average, taking into consideration compliance with site operating procedures for Covid-19.

    Results for the quarter were: July – 89%, August – 90% and September – 91%. This was running ahead of the national average for the period of 80%.

15. Members will note the inclusion of the thematic Covid-19 risk register as part of your regular Risk Report (CS 419/20). This includes specific risks relating to the impact on our investment property returns and site productivity.

Performance

16. A RAG status is used to summarise the progress of the performance indicators on a quarterly basis. The table below provides an 'at a glance' status report for the City Surveyor's KPIs at the end of quarter 1.

Status[1]	**Green**	**Amber**	**Red**	**No RAG**	**N/A**
Corporate Asset Sub Committee	10	2			1
Property Investment Board	8			3	1
Overall [2]	10	2		3	2

17. Of the seventeen KPIs being monitored, all KPIs have been affected by the impact of Covid-19.

18. The amber indicators were the following:

    A. KPI. 1 – Asset realisation and additional income (CAsC)

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[1] Red = High Risk of Failure or Not Achieved; Amber = Some Concern; Green = On Target or Achieved.

[2] Some KPIs relate to both PIB and CAsC. Therefore, row indicating KPIs overall is not a total of the PIB and CAsC rows.

Covid-19 continues to have an impact on our ability to secure additional rental income from existing lease events and new lettings. Unless trading and business activity for tenants returns to pre-pandemic levels soon, there is considerable risk that the target of £1.5m per annum additional income will not be secured in-year.

Woodredon Farm has been delayed due to a combination of an element of the site awaiting to be formally declared surplus by the service Committee, and delays in surveying due to Covid-19.

B. KPI. 3 – Space utilisation (CAsC)

The Guildhall introduced a phased return to the workplace this quarter for some categories of staff. However more recent restrictions have reversed some of this return. The department continues to focus on ensuring staff safety, and that the workplaces are Covid-19 secure.

Strategic implications

19. The work of the department supports the delivery of the organisation's Corporate Plan. The impact of Covid-19 has been keenly felt in our ability to generate income on behalf of the organisation. The department will continue to work hard to minimise the negative impacts of this issue.

Conclusion

20. This report provides an update at quarter 2 (June to September) against the department's Business Plan.

Appendices

- Appendix A – Budget Monitoring Statement
- Appendix B – KPI Tables
- Appendix C – Headline Performance Charts

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