

Committee:	Date:
Corporate Asset Sub-Committee	10 February 2017
Subject:	Public
Third party agreements – Operational property portfolio	For Information
Report of:	
City Surveyor (CS.051/17)	
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Summary

The operational property portfolio is not entirely occupied by service departments; a significant proportion of the portfolio is occupied by third parties under a variety of agreements. This report provides an overview of third party agreements across the operational property portfolio. The purpose is to give Members a broad understanding of the type and nature of such agreements.

Within the operational portfolio, there are many separate agreements with third parties. These can be broadly separated into four main categories being ‘Leased In’, ‘Leased Out’, ‘Benefits in Kind’ and ‘Other Occupier Agreements’. Income generating agreements include traditional leases/licences of commercial and residential premises, service agreements, wayleaves, handgates, motorgates, storage units, car parking spaces, ground leases and tenancies at will.

Having established the nature and broad extent of third party agreements, this report outlines actions being undertaken to ensure these agreements are subject to due corporate oversight, are being managed in accordance with best practice and their performance appropriately monitored. Specifically, it is proposed that these objectives will be reported at a portfolio level to this committee annually.

Recommendations

Members are asked to note the contents of this report:

Main Report

Background

1. The Operational Property Portfolio – Annual Report 2016 was submitted to this committee in September 2016. This report provided Members with a broad overview of the size, range and complexity of the City’s operational portfolio. Specifically, the report identified 93 properties with 631 building assets and land of approximately 40 million square meters held within the operational portfolio of the City of London Corporation.
2. A significant proportion of the operational property portfolio is not occupied by departments but is leased from or transferred to third parties by way of separate agreements. These agreements take the form of four main types namely ‘Leased In’, ‘Leased Out’, ‘Benefits in Kind’ and ‘Other Occupier Agreements’.

3. The Corporate Property Group (CPG) is currently reviewing the total number, size, rental income and retained liabilities of agreements split by 'Leased In', 'Leased Out', 'Benefits in Kind' and 'Other Occupier Agreements'. The definition of these categories is further defined below. Notably, our investigations to date reveal the highest number of agreements is 'Other Occupiers' with the vast majority of income generating agreements as 'Leased Out'. Corporate information on third party agreements is still being collated and verified with support from the Chamberlain; we expect to be in a position to confirm a more detailed position shortly.
4. The 'Leased In' portfolio is relatively minor give the City predominantly holds its operational portfolio on a freehold basis. It includes all agreements where the City leases in or occupies accommodation from a third party.
5. The 'Leased Out' portfolio includes all Leases and Licences entered into principally for a commercial return. However, these agreements may also have service related objectives attached to them. For example, these agreements include tenants in the City's three wholesale markets, Open Space's tenants such as cafes, offices, residential units, storage units, lodges, highways and utility agreements. It also includes service agreements where third parties occupy premises by lease/licence but also provide a service on our behalf such as in waste recycling at Walbrook Wharf.
6. 'Benefits in Kind' support the City's wider role and may be historic in nature. Agreements are largely entered into without the primary objective of a commercial return. These agreements include community, cultural, volunteer and sports related activity. Despite the concessionary nature of these agreements, the City may retain other obligations attached with these assets such as the requirement to maintain, meet statutory obligations, health and safety requirements etc.
7. 'Other Occupier Agreements' include rights granted that support the operational asset base for a variety of different purposes. For example these agreements include, wayleaves, handgates, service and utility agreements.

Management

8. The current management of third party agreements is complex and to date there has been little corporate oversight. Third party agreements are managed by various departments (or more than one department), typically reflecting the nature of the agreement, its origin and purpose.
9. For example, where assets are leased primarily to obtain a rental income these assets are normally managed, in an advisory role, by the City Surveyor's Department, under the existing scheme of delegations. Recommendations on these assets are reported to the relevant spending committee and are managed accordingly. Similarly, where there is no operational interest in the asset, other than perhaps the existence and proper management thereof, the agreement is managed almost exclusively by the

City Surveyor's Department. It is important to note however that financial management of the asset is retained by the relevant spending committee as income goes into the relevant departmental local risk budget. Accordingly arrears management is retained by the spending committee in consultation with the Chamberlain and Comptroller and City Solicitor.

10. Where the agreement relates solely to supporting the relevant department's business plan, this is normally managed by the relevant department. However, corporate oversight of these agreements is relatively poor. For example, there may be historic reasons for retaining these agreements which are contained wholly within the relevant departments archives without corporate oversight. Alternatively, they may relate to operational activity which is delegated to the relevant department.
11. Without full corporate oversight it is not possible to report meaningfully on all third party agreements, other than the basic nature and extent. For example, whether the agreements are still necessary to support the relevant department's existing business plan. Alternatively, whether assets currently occupied by third parties may be required for a corporate requirement.
12. The information currently available on third party agreements demonstrates the significance of these assets to the operational property portfolio. In addition, the rental income is significant in terms of the City's overall revenue. The retained obligations associated with these assets may also have significant implications in terms of mitigating risk to the City.

Actions

13. The ability to report corporately that these assets are properly managed is long overdue. The current Asset Management review, reporting into the Strategic Asset Management Programme Board, represents an opportunity to gain a much improved insight into the existing management of these assets. Where gaps may be identified appropriate recommendations can be submitted to improve the management of the assets and potentially mitigate any associated corporate risk. In addition, periodic corporate reporting of the extent and nature of these assets will help maintain the profile of these assets and help ensure their best employment to support the objectives of the City.
14. Accordingly, the following actions are being incorporated into the AM review:-
 - a. Cross reference of third party data from OPN with operational departments to ensure a complete and accurate database.
 - b. Seek understanding of how and by whom agreements are currently managed within service departments
 - c. Provide recommendations to service departments on the management of third party agreements, where gaps are identified either in terms of best practice or mitigation of risks
 - d. Report back to this committee with a revised picture of third party agreements and their management

Corporate & Strategic Implications

15. The proposals in this report support the Corporate Plan Strategic Aims:-
- To provide modern, efficient and high quality local services, including policing, within the Square Mile for workers, residents and visitors
 - To provide valued services, such as education, employment, culture and leisure, to London and the nation

Implications

16. There are no financial implications at this stage; the continued review of third party agreements will be undertaken by CPG and as part of the AM review within existing resources. However, should initial investigations reveal a need to seek additional resources we will revert back to this committee.

Conclusion

17. This report builds on the earlier “size and shape” report by providing details of the nature and extent of third party agreements within the operational property portfolio. The actions being undertaken will further inform this committee of the challenges the City faces in ensuring that these agreements are managed in accordance with best practice. CPG will report back further findings to this committee as part of the AM review and continue to improve the portfolio overview reporting for this committee.

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