Public Document Pack

Property Investment Board

Date: WEDNESDAY, 14 OCTOBER 2015

Time: 1.45 pm

Venue: COMMITTEE ROOMS, 2ND FLOOR, WEST WING, GUILDHALL

Members:
Deputy Alastair Moss (Chairman)
Tom Sleigh (Deputy Chairman)
Chris Boden
Mark Boleat
Deputy Michael Cassidy
Roger Chadwick
Deputy John Chapman
George Gillon
Deputy Brian Harris
Ann Holmes
Deputy Robert Howard
Michael Hudson
Dhruv Patel

Enquiries: **David Arnold**
tel. no.: 020 7332 1174
david.arnold@cityoflondon.gov.uk

Lunch will be served in Guildhall Club at 1PM
NB: Part of this meeting could be the subject of audio or video recording

John Barradell
Town Clerk and Chief Executive

AGENDA

Part 1 - Public Agenda

1. **APOLOGIES FOR ABSENCE**

2. **MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA**

3. **MINUTES**
   To approve the public minutes and summary of the Property Investment Board meeting held on 16 September 2015.

   For Decision
   (Pages 1 - 4)

4. **INCREASING THE SUPPLY OF HOMES - THE ROLE OF THE CITY OF LONDON CORPORATION**
   Joint report of the Director of Community and Children's Services and the City Surveyor, approved by the Policy and Resources Committee on 24 September 2015.

   For Information
   (Pages 5 - 14)

5. **CHAMBERLAIN'S FINANCIAL APPRAISALS OF THIRD PARTY ENTITIES**
   Report of the Chamberlain, approved by the Finance Committee on 21 July 2015.

   For Information
   (Pages 15 - 38)

6. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE BOARD**

7. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**

8. **EXCLUSION OF THE PUBLIC**
   MOTION – That under Section 100A(4) of the Local Government Act 1972, the public be excluded from the meeting for the following items on the grounds that they involve the likely disclosure of exempt information as defined in Part 1 of Schedule 12A of the Local Government Act.

   For Decision

Part 2 - Non-Public Agenda

9. **NON PUBLIC MINUTES**
   To approve the non-public minutes of the Property Investment Board meeting held on 16 September 2015.

   For Decision
   (Pages 39 - 44)

10. **REPORT OF ACTION TAKEN BETWEEN MEETINGS**
Report of the Town Clerk.

For Information
(Pages 45 - 46)

11. **QUARTERLY DELEGATED AUTHORITIES UPDATE - 1 JULY TO 30 SEPTEMBER 2015**
Report of the City Surveyor.

For Information
(Pages 47 - 54)

CITY FUND

12. **QUEEN VICTORIA STREET - TRANSFER OF CAR PARK FROM CITY FUND TO BRIDGE HOUSE ESTATES**
Report of the City Surveyor.

For Decision
(Pages 55 - 58)

13. **LETTING REPORT: GRANT OF NEW LEASE - 2ND FLOOR, BONHILL STREET, EC2**
Report of the City Surveyor.

For Decision
(Pages 59 - 62)

CITY'S ESTATE

14. **LETTING REPORT: SURRENDER & GRANT OF NEW LEASE, NEW BOND STREET W1**
Report of the City Surveyor.

For Decision
(Pages 63 - 70)

15. **LETTING REPORT: RENT REVIEW - NEW BOND STREET, W1**
Report of the City Surveyor.

For Decision
(Pages 71 - 76)

16. **ACQUISITION OF LEASEHOLD INTEREST, BREWERY ROAD N7 (TO FOLLOW)**
Report of the City Surveyor.

For Decision
(To Follow)

17. **NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE BOARD**

18. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE BOARD AGREES SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**

This page is intentionally left blank

PROPERTY INVESTMENT BOARD

Wednesday, 16 September 2015

Minutes of the meeting of the Property Investment Board held at Guildhall, EC2 on Wednesday, 16 September 2015 at 1.45 pm

Present

Members:
Deputy Alastair Moss (Chairman)
Tom Sleigh (Deputy Chairman)
Chris Boden
George Gillon
Deputy Brian Harris
Ann Holmes
Michael Hudson

Officers:

David Arnold	Town Clerk's Department
Fern Aldous	Town Clerk's Department
John James	Chamberlain's Department
Alan Bennetts	Comptroller & City Solicitor's Department
Nicola Beanlands	Comptroller & City Solicitor's Department
Peter Bennett	City Surveyor
Nicholas Gill	City Surveyor's Department
Peter Young	City Surveyor's Department
Tom Leathart	City Surveyor's Department
Trevor Nelson	City Surveyor's Department
Colin Wilcox	City Surveyor's Department

1. **APOLOGIES FOR ABSENCE**
   Apologies for absence were received from Mark Boleat, Deputy Michael Cassidy, Roger Chadwick, Deputy John Chapman, Deputy Robert Howard and Dhruv Patel.

2. **MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA**
   Deputy Alastair Moss (Chairman) declared an interest in respect of Item 9 and withdrew from the discussion in regards to the matter.

3. **MINUTES**
   RESOLVED – That the public minutes and non-public summary of the meeting held on 22 July 2015 be approved.

4. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE BOARD**
   There were none.

5. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**
There was none.

6. **EXCLUSION OF THE PUBLIC**
RESOLVED – That under Section 100A(4) of the Local Government Act 1972, the public be excluded from the meeting for the following items on the grounds that they involve the likely disclosure of exempt information as defined in Part 1 of Schedule 12A of the Local Government Act.

Item No.	Paragraph No.
7 – 16	3

7. **NON PUBLIC MINUTES**
RESOLVED – That the non-public minutes of the meeting held on 22 July 2015 be approved.

The City Surveyor updated the Board regarding several matters arising.

8. **REPORT OF ACTION TAKEN BETWEEN MEETINGS**
The Board received a report of the Town Clerk that advised Members of action taken by the Town Clerk, in consultation with the Chairman and Deputy Chairman, under delegated authority or urgency since the last meeting of the Board.

RESOLVED – That the action taken under delegated authority or urgency between meetings be noted.

9. **OUTSTANDING LEASE RENEWALS & RENT REVIEWS**
The Board received a report of the City Surveyor regarding outstanding rent reviews and lease renewals as at 30 June 2015.

The Chairman was not present for a discussion held on properties on Tottenham Court Road as he had declared an interest in the matter.

RESOLVED – That the report be noted.

10. **CITY'S RENTAL FORECASTS MONITORING REPORT**
The Board received a report of the City Surveyor that provided Members with the latest quarterly update of rental forecasts for City’s Estate, Bridge House Estates, City Fund, and the Strategic Estate, as at 30th June 2015.

RESOLVED – That the report be noted.

11. **CITY SURVEYOR'S DEPARTMENTAL BUSINESS PLAN 2015-18 QUARTER ONE PROGRESS REPORT**
The Board received a report of the City Surveyor that provided an update to the Quarter One of the City Surveyor’s Departmental Business Plan 2015-18.

RESOLVED – That the report be noted.

12. **DEPARTMENTAL RISK REPORT**
The Board received a report of the City Surveyor regarding risk management procedures in place within the City Surveyor's Department.

RESOLVED – That the report be noted.

13. **RENT REVIEW - SOUTH MOLTON STREET, W1**
The Board considered a report of the City Surveyor that sought approval to a rent review.

14. **LETTING REPORT - NEW BRIDGE STREET, EC4**
The Board considered a report of the City Surveyor that sought approval to the grant of a reversionary lease.

15. **NON-PUBLIC QUESTIONS ON MATTERS RELATING TO THE WORK OF THE BOARD**
There were none.

16. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE BOARD AGREES SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**
The Board considered two items of urgent business.

The meeting ended at 3.05 pm

Chairman

Contact Officer: David Arnold
tel. no.: 020 7332 1174
david.arnold@cityoflondon.gov.uk

This page is intentionally left blank

Committee	Dated:
Policy and Resources (for decision) Community and Children's Services (for information) Property Investment Board (for information) Court of Common Council (for decision)	24 September 2015 9 October 2015 14 October 2015 15 October 2015
Subject: Increasing the supply of homes – the role of the City of London Corporation	**Public**
Report of: Director of Community and Children's Services The City Surveyor	**For Information**

Summary

At the last meeting of the Policy and Resources Committee, Members were advised (via the notes of the informal meeting of the Resources Allocation Sub-Committee) that in response to the housing shortage in the capital a report setting out the scope for the provision of additional housing was being prepared and would be considered in the autumn. This report, in response to housing shortage in the capital, the City of London Corporation, set out proposed ambitions to deliver more homes in the policy document "Increasing the supply of homes – the role of the City of London Corporation."

The inability of the capital to supply sufficient housing to meet demand has led to problems of affordability for many households on low and medium incomes. This situation impacts not only London's communities, but is a risk to the capital's competitiveness and economy.

Meeting the housing needs of the capital requires the commitment and action of all local authorities to support new supply. The policy document before Members sets out the City Corporation's ambition to build on its presence and partnerships beyond the boundaries of the Square Mile to increase housing supply in the capital. It is an ambition that includes a commitment to increase the supply of homes on its social housing estates by 25 per cent, and provide 3,000 additional homes on development sites in the City Corporation's ownership. In doing so the City Corporation will deliver a range of homes – those that are social rented, homes that offer shared ownership and homes for market sale and rent.

Recommendation(s)

Members are asked to:

- approve the policy document "Increasing the supply of homes – the role of the City of London Corporation"
- approve the commitment of that document to provide additional homes through opportunities
    I. on the City Corporation's social housing estates

II. on other City Corporation sites with development potential

- note that where the delivery of this vision will require additional resources this requirement will be set out and brought to Members for approval
- note that the progress of developing detailed proposals to support the ambition set out will be reported to Members.

Main Report

Background

1. The imbalance of housing supply and demand has seen house prices and rental costs rise faster than wage inflation. Homes for sale at the lower end of the capital's housing market are now only affordable to those whose incomes are in the top quartile.

2. It is estimated that London needs to deliver 49,000 homes each year for ten years to address the existing backlog and newly arising demand. This level of delivery has not been achieved in any year in the last decade. Issues of infrastructure investment, planning policy, skills and material shortages, site ownership and control, and the availability of debt financing have all contributed to constrained supply.

3. Such housing shortage not only impacts on the capital's population, but is a significant risk to London's economy as it threatens the successful recruitment and retention of staff.

4. Responding to this issue has become a priority for national, regional and local government.

Proposals

5. The policy document "Increasing the supply of homes – the role of the City of London Corporation" sets outs the contribution the City Corporation can deliver to respond to the housing challenges facing the capital. It acknowledges that no single organisation can deliver the homes London needs – rather it requires all of London's local authorities to support delivery and maximise the opportunities for supply through their enabling role, their local plans and the formation of constructive partnerships.

6. In this context the City Corporation will play its role in meeting this challenge by identifying sites and partnerships through which new homes can be delivered. This includes opportunities both on its existing social housing estates and on other sites in the city's ownership that offer the potential for development. In doing so the City aims to deliver the ambition set out in the Policy to provide 3,700 homes by 2025.

7. The Policy before Members sets out an ambitious commitment to provide homes of mixed tenures for those on a range of incomes. Within the City Corporation's social housing estates this programme will be funded through planning gain

receipts, grant funding, borrowing within the Housing Revenue Account and cross subsidy from market sale of some new homes. On development sites outside of the HRA the City will explore the potential of private financing, joint ventures, borrowing or disposal to support the development of new homes.

8. The City Corporation will also work to enable private/public partnerships to maximise delivery of new homes. In addition the Policy sets out the City's intention to work with London Councils, central government and the Mayor of London to influence policy change to enable and support the market to respond to the scale of need that exists.

9. If approved, the implementation of the objectives set out will be overseen by the Housing Steering Group, jointly chaired by the Director of Community and Children's Services and the City Surveyor. This will provide the leadership alongside that of the Common Council to deliver this ambition.

Corporate & Strategic Implications

10. The ambitions set out in "Increasing the supply of homes – the role of the City of London Corporation" is consistent with the City's corporate priorities of supporting London to be the world's leading financial and business centre, and for delivering for London and the nation.

Implications

11. Delivery of the City Corporation's housing vision will require additional resources. These resources will be identified in the detailed proposal set out to support delivery and will be brought to Members for approval.

Conclusion

12. Tackling housing shortage in the capital is one of the most urgent issues facing all tiers of government in London. The City Corporation has the opportunity to contribute to addressing this issue by increasing the supply of homes on development sites across London. In doing so it has the opportunity to provide homes of mixed tenures for those on a range of incomes.

Appendices

- Appendix 1 – Increasing the supply of homes – the role of the City of London Corporation

Simon Cribbens
Policy Development Manager – housing and social care
T: 020 7332 1210
E: simon.cribbens@cityoflondon.gov.uk

This page is intentionally left blank

City of London Corporation

Increasing the supply of homes – the role of the City of London Corporation

1 Context

1.1 Housing shortage in London is one of the most pressing economic and social issues that the capital faces. Growing population and reducing average household size is driving an exponential increase in demand for housing. London has both more people living there and a growth in people living alone or in smaller households – meaning any given number of people will now occupy more homes than in previous generations. Forecast growth in the capital over the next ten years will see London absorbing an additional population that is greater than that of Birmingham.[1] The Greater London Authority estimates this growth, combined with an existing backlog of demand, will require the delivery of 49,000 new homes each year for ten years.[2]

1.2 Despite this, supply has not kept pace. Issues of infrastructure investment, planning policy, skills and material shortages, site ownership and control, and the availability of debt financing have all contributed to constrained supply, and therefore the effective response of the market. Some local authorities with ambition to develop homes have also been constrained by borrowing caps imposed by government, and concerns about the impact of right to buy.

1.3 Capacity for homes has been identified on brownfield[3] sites, but such sites often need investment in remediation or infrastructure to unlock their development potential. Other more viable development opportunities are stymied by local opposition, and local and national politicians have been reluctant to consider contentious issues such as reviewing the scope and scale of some planning constraints.

1.4 This imbalance of supply and demand has seen house prices and rents rise significantly faster than wage inflation, resulting in issues of affordability or households having to allocate very high proportions of income to meet housing costs.

1.5 The relationship between house prices in London and the incomes of the majority places the purchase of a home out of reach for many not already on the housing ladder. In 2014 the cheapest ten per cent of homes were sold at a price that was greater than four times the salary earned by three quarters of those in full time employment. The resulting inability to buy has seen a transfer to private renting and the growth of that sector to the point that it is now, at 27 per cent of homes, larger that the capital's social housing sector.

---

[1] *Homes for London: The London Housing Strategy 2014*, Greater London Authority, April 2014
[2] *Housing in London 2014*, Greater London Authority, April 2014
[3] Brownfield is a term used in urban planning to describe land previously used for industrial purposes or some commercial uses.

1.6 While the social sector represents almost a quarter of homes, access to them is limited and many local policies, such as that of the City Corporation, exclude households on incomes that are high in relation to social rents, but would not buy a family home in the capital.

1.7 The scale of exclusion from housing – particularly home ownership – requires a response that is beyond the means and role of publicly funded subsidised housing. It is necessary for the market to meet the needs of the majority. To achieve this requires the delivery of a significantly increased supply of homes to bring market prices within the range of those currently excluded.

1.8 The impact of housing shortage is not just an issue for London's residential communities, but for its economy. Recent research undertaken and reported by London First[4] illustrates the scale of concern among both businesses and employees. Three quarters of London businesses surveyed thought that housing supply and costs are a significant risk to the capital's economy. This concern is underlined by the experience of employees, particularly those aged 25-39, 70 per cent of whom find the cost of their rent/mortgage makes it difficult to work in London – and half of whom would consider leaving London to work in another region.

1.9 The implications of such research is that London businesses may fail to recruit and retain the skilled workforce it will continue to need to compete internationally, and fail to house those of all skill levels whose work sustains the functioning of a large and diverse economy. In response the London Chamber of Commerce and Industry has called for increased supply within London, with a particular emphasis on delivering market homes to meet the needs of those with an annual income of less than £50,000 – an ambition achievable only through significant change in the balance of supply and demand.[5]

1.10 Housing in London is now a political priority for national, regional and local government. Policy responses have to date failed to deliver the quantum of supply needed, with many initiatives focussed on stimulating demand for market homes rather than driving delivery. Some initiatives have subsidised homes for a narrow section of the population on the lowest incomes, and done little for those on low and middle incomes. Those initiatives that have targeted specific "keyworker"[6] groups have subsidised housing for some, without meeting the needs of those employed in the range of roles essential to the functioning of public and private sectors.

1.11 The government is responding to this priority. In its recently published productivity plan[7] the government recognised the importance of an effective land and housing market to the nation's economic productivity and prosperity. It reflected that the UK has been incapable of building enough homes to keep up with growing demand, and has set out plans to tackle this by addressing the "excessively strict planning system",

---

[4] *Moving Out – How London's housing shortage is threatening the capital's competiveness*, London First, September 2014

[5] *Getting our house in order: The impact of housing undersupply on London businesses,* London Chamber of Commerce and industry, May 2014

[6] A key worker is a public sector employee who is considered to provide an essential service. The term is often used in the context of those who may find it difficult to buy property in the area where they work.

[7] *Fixing the foundations: Creating a more prosperous nation,* HM Treasury, July 2015

delivering higher density housing, improving co-operation between local authorities and releasing unneeded commercial land for housing.

2 Role of the City of London Corporation

2.1 The City of London Corporation has a role that goes beyond that of an ordinary local authority. The City Corporation works to support and promote London as the world's leading international financial and business centre and attract new business to the capital and the UK as a whole. It also works in partnership with public, private and voluntary sectors to improve long-term economic, social and environmental well-being across London.

2.2 It is for these reasons that the City Corporation wants to support the continuing development of an infrastructure, including housing, in which the City and the wider capital can continue to thrive.

2.3 For the City of London, the capital and the nation it is crucial that the right homes are delivered in the right places. The Square Mile has been granted exemption from the permitted development rights allowing the conversion of office space to residential units without planning permission. This exemption does not undermine the City Corporation's commitment to delivering more homes: it recognises instead that the economy is best served by supporting the agglomeration of the financial sector, and that the capital's housing needs will not be met by selective developments in the prime commercial market.

2.4 The City Corporation will build on its presence and partnerships beyond the boundaries of the Square Mile to deliver its commitment to increasing housing supply in the capital.

3 Housing vision

3.1 The City Corporation's vision is to deliver an ambitious programme of housing development, providing homes of mixed tenures for those on a range of incomes. Within our social housing estates this programme will be funded through planning gain receipts, grant funding, borrowing within the Housing Revenue Account[8] and cross subsidy from market sale of some new homes. On development sites outside of the HRA the City will explore the potential of private financing, joint ventures, borrowing or disposal to support the development of new homes.

3.2 The City Corporation will use its close relationship with the finance sector and stability to enable partnership across the private and public sectors to maximise supply, and share innovation and best practice. The City Corporation will also work to shape and influence policy change that will enable supply and unlock opportunities.

3.3 By 2025 the City Corporation will deliver 3,700 new homes on sites across the capital.

[8] The Housing Revenue Account (HRA) is a "ring-fenced" account held by the City Corporation and all local authorities that own council homes. It contains all the spending and income related to the dwellings owned by the City Corporation acting as social landlord.

4 Principles

4.1 The delivery of the City Corporation's vision for housing will be guided by five principles:

A focus on supply

4.2 London needs more homes. Delivering these homes requires all of the capital's local authorities to support delivery and maximise the opportunities for supply through their enabling role, their local plans and the formation of constructive partnerships. The City Corporation will play its role in meeting this challenge, identifying sites and partnerships through which new homes can be delivered.

Delivering a range of tenures to meet needs across the income scale

4.3 London needs to house a range of households, delivering the diversity of skills and labour required by the capital. Subsidised housing meets the needs of a limited group, while the failure of supply has locked those on low and middle incomes out of homes ownership. The City Corporation will deliver a range of homes – those that are social rented, homes that offer shared ownership and homes for market sale and rent.

Maximising site potential whilst delivering improved amenity

4.4 Delivering higher density housing is essential to meeting the capital's housing needs, and has been at the heart of the City Corporation's historic housing programme. Many of London's most desirable and affluent neighbourhoods are those that have the highest densities. Brownfield sites, surplus land, infill opportunities and the changing nature of town centres offer chances to intensify housing supply within the reach of transport hubs and other services. The City Corporation will continue to deliver high density homes in high quality environments, and use opportunities to intensify housing supply to deliver improved amenity.

Unlocking opportunities and partnerships

4.5 London housing issues cannot be tackled in isolation. The City Corporation will maximise the delivery of new homes by fostering and developing partnerships across the public and private sectors. It will build on the Corporation's existing experience of working in a number of London boroughs and leading partnerships that add value to local communities.

Securing value, assets and returns

4.6 Through delivering more social homes the City Corporation will increase the asset base within its Housing Revenue Account. It will deliver homes funded through Section 106 receipts, and cross subsidy from shared ownership sales and the provision of market homes. It will explore partnership ventures that unlock private funding while allowing the City to retain land assets. Where investment offers competitive long term returns, the City Corporation will explore the potential to fund new homes.

5 Objectives

25 per cent increase in homes on City Corporation housing estates

5.1 The City Corporation will deliver a 25 per cent increase in homes on its Housing Revenue Account estates by 2025. The City Corporation has already resumed the development of social housing, delivering 70 new homes since 2012.

5.2 Further delivery will be achieved by identifying sites for new homes on the City Corporation's own housing estates. An assessment of opportunities to increase the housing density within these existing estates has identified sites offering the potential to deliver more than 700 additional homes.

5.3 New homes will be delivered at "lifetime homes" design standards to ensure they meet both a range of needs, and needs that change over time. High standards of design will also ensure energy efficiency measures which will contribute to reducing fuel poverty, and contribute to the creation of attractive, well designed, accessible neighbourhoods that promote wider economic, health and social wellbeing.

5.4 The development programme will be supported by funding drawn from Section 106 receipts, grant funding from the Mayor of London's housing investment programme, borrowing within the Housing Revenue Account and cross subsidy from shared ownership and market sales. This approach will deliver a range of tenures to meet a variety of needs and incomes.

3,000 additional new homes

5.5 The City Corporation holds sites across many parts of London. Many are protected green spaces that are safeguarded and maintained by the City Corporation for the benefit of London's communities. Other sites, however, offer the potential to provide quality homes with improved local amenity and green spaces. Sites owned by the City Corporation have already been identified offering the potential to deliver 3,000 new homes by 2025.

5.6 The City Corporation will work with partner local authorities where it identifies potential sites and, where necessary and appropriate, discuss the re-designation of land where it has previously served other uses.

5.7 To deliver these new homes the City Corporation will explore the potential to partner with developers and housing associations. It will also explore the potential to establish a local housing company, either wholly owned by the City of London or in partnership with others, as a vehicle that could attract investment and deliver returns through the delivery of housing.

5.8 These homes will provide opportunities for home ownership and market rent, with additional affordable homes being provided in line with local planning requirements. The intention of this supply will be to contribute to meeting the needs of the vast majority of working households for whom subsidised housing is not and cannot be available.

Enabling private/public partnerships to maximise delivery of new homes

5.9 In the last parliament the government commissioned a review of the role of local authorities in delivering housing.[9] One of the central recommendations, supported by government, is the development of closer partnerships between business and local authorities to unlock development opportunities and financing.

5.10 The City Corporation will support this work, building its own partnerships, and helping to enable them among others. This enabling support will be delivered in part through the City Corporation's proposed role as a founding member of the Housing and Finance Initiative (HFI). The HFI is a body focused on increasing the pace and scale of delivery of housing across all tenures by helping public and private sector bodies more easily form joint ventures through better understanding of needs and risks.

5.11 The City Corporation will also explore partnership opportunities and models that deliver both additional homes and added value to local communities and Londoners.

Influence policy change to encourage supply

5.12 Unlocking the supply opportunities the Capital needs requires policy makers in national, regional and local government to re-examine the barriers and constraints that exist. Public funding alone cannot resource the scale of additional housing that is needed, and therefore policy must enable and support the market to meet this need.

5.13 For the City Corporation this will mean working with London Councils, central government and the Mayor of London to influence change and debate. The City is committed to protecting the capital's quality green spaces, but recognises the need to look at the potential of land that is of lower quality and proximate to existing transport hubs to provide homes needed by Londoners.

5.14 The City Corporation will also work with partners to explore the role new housing supply and policy can take in promoting the better use of London's existing housing stock.

6 Implementation

6.1 A Housing Steering Group, jointly chaired by the Director of Community and Children's Services and the City Surveyor, has been established to lead the delivery of the City Corporation's housing vision. This will provide the leadership alongside that of the City Corporation's Common Council to deliver this ambition.

[9] *From statutory provider to housing delivery enabler: Review into the local authority role in housing supply*, Department of Communities and Local Government, January 2015.

Committee	Date:
Finance Committee – For Decision Property Investment Board – For Information	21 July 2015 14 October 2015
Subject: Chamberlain's Financial Appraisals of Third Party Entities	**Public**
Report of: The Chamberlain	**For Information**

Summary

The Chamberlain's Department undertakes financial appraisals on potential commercial tenants, suppliers and service providers. Such appraisals have been undertaken based on practical experience and knowledge using an internally developed procedure guide. In February 2015 new procurement regulations were transposed into UK law with an increased requirement on transparency and compliance in respect of selection criteria. The new regulations also require a 'light touch' regime for low value contracts below the OJEU threshold. Consequently, the procedure guide was amended to incorporate selection criteria required by the new regulations, and the assessment methodology is disclosed to suppliers up front to ensure transparency. Pre-Qualification Questionnaires (PQQ) now include, where relevant, explicit financial criteria from the procedure guide, against which potential tenderers can assess their own suitability on a pass/fail basis. For contracts below the OJEU threshold, the procedure guide was revised to allow a proportional approach based upon the risk of the contract. Ensuring the procedure guide has official status represents a logical development that protects the City from external challenge, and makes the procurement process more accessible to SMEs.

This report presents this procedure guide for formal adoption by the City Corporation. The new regulations will require modest changes to the working practices of the appraisals team, however it is expected that this can be accommodated within existing resources.

Recommendations

Members are asked to:

a) Note the report

b) Adopt the financial appraisal procedure guide

c) Delegate authority to the Chamberlain to amend the guide as necessary to comply with United Kingdom and European Community procurement law and any other legal and accounting requirements which may arise in due course.

Main Report

Background

1. The City Corporation has a diverse range of commercial and business interests which require it to interact financially with the wider world, which exposes its financial resources to risk, either by losing income or by incurring excessive expenditure when interacting with third parties. Financial appraisals are a means of mitigating that risk in some part.

2. The main areas of risk are retail and commercial leases, property developments, contracts for goods or services and the Approved List of Caterers for Guildhall functions.

3. In February 2015, the Public Contract Regulations 2015 (PCR 2015) were transposed into UK law, with increased requirements on transparency and compliance in respect of selection criteria used in financial appraisals. The new requirements have resulted in financial appraisals coming under more scrutiny as they represent a visible and important facet of the procurement process. As such they are exposed to challenge, particularly where an adverse financial appraisal is given.

4. Members of the Barbican Board have queried the appropriateness of financial appraisal procedures applied and the Chairman of Finance Committee has agreed that a review of the procedures should be undertaken.

5. This report seeks Members' approval for the formal adoption of the current financial appraisal procedure guide to be used when undertaking financial appraisals of third party entities.

Current Position

6. Financial appraisals are undertaken on third party entities which are:

    a. taking tenancies of City commercial and retail properties;
    b. undertaking developments of City property holdings;
    c. being shortlisted for City Corporation contracts with a value in excess of £172,000 for goods and services or £400,000 for works;
    d. being retained on the Approved List of Caterers for Guildhall functions.

7. A procedure guide has been developed from existing documentation, current working practices and practical experience. The intention has been to codify City practice, ensure robust assessment procedures to mitigate financial risk, and demonstrate compliance with Regulation 58 (Selection Criteria – Economic and Financial Standing) of PCR 2015. The guide is a living document which continues to be amended as necessary in the light of experience and in response to changing statutory requirements. It currently has no formal status, being an internal working document used to ensure that all financial appraisals are undertaken to the same standards of analysis.

8. During 2014 the financial appraisal practices in nine other local authorities were benchmarked against the City's current practice. Within these nine examples

practice ranged from one instance of sole reliance on Credit Reference Agency (CRA) to sole reliance on analysing company accounts (three instances). Four authorities analysed company accounts supplemented by CRA. One authority was implementing an on-going project to move away from financial appraisals in favour of risk based assessment. There appeared to be no standard model or guidance for financial appraisals in use.

9. The City uses company accounts supplemented by the background information provided in Credit Reference Agency reports for financial appraisals. This compares favourably to those authorities that only used information from a single source, and would accord with the practices of the majority of those authorities included in the benchmarking.

Proposals

10. It is proposed that the procedure guide should be adopted as the City's standard procedure to be applied for all financial appraisals undertaken by the Chamberlain's Research and Technical section.

11. It is also proposed that authority should be delegated to the Chamberlain to amend the guide as necessary, once adopted, in order to reflect the continuing development of procurement policy under PCR 2015 and any other legal and accounting requirements which may arise.

12. The main change to existing procedures is to incorporate mandatory assessment criteria required by PCR 2015, such as those relating to turnover thresholds. The revised procedures are more transparent, with the financial criteria and method of assessment communicated to prospective suppliers up front. This enables them to undertake a measure of self-assessment to determine whether they have the financial and economic standing to perform the contract.

13. The procedures also incorporate the requirements of PCR 2015 relating to low value contracts below the OJEU threshold. For these tenders, contractors submit a self-assessment against the City's evaluation criteria and the financial appraisal process is only applied to the winning bidder. The revised procedures allow a proportional approach to the appraisal criteria based upon the size of the contract, and the pool of likely contractors.

14. The procedure guide is attached at Appendix 1 and incorporates the financial appraisal criteria used in the Pre-Qualification Questionnaire (PQQ) for contracts being let by City Procurement e.g. the calculation of turnover requirements, standard accounting ratios, and Altman's Z- Score.

Implications

15. With the advent of PCR 2015 it is imperative that the procurement process should demonstrate transparency and compliance with the new regulations. The financial appraisal of potential tenderers is a part of the procurement process which does come under scrutiny and challenge by external parties exercising their rights to challenge contract awards in accordance with regulations 88-104 (Chapter 6 Applications to the Court) of PCR 2015. Adopting the procedure guide

and its PQQ criteria will underpin the already robust procurement procedures in place.

16. The procedures are compliant with regulation 111 (Assessing suitability – Chapter 8 Below threshold contracts) of PCR 2015, which requires a light touch procurement regime for low value contracts. Compliance with the new regulations reinforces the City's support for SME's, making it easier for them to engage with the procurement process and ensuring that any appraisal undertaken is proportionate to the risk of the contract.

17. Should the procedure guide and its PQQ criteria *not* be adopted, the financial appraisal elements of procurement projects will potentially breach statutory requirements and also leave such projects open to challenge by external parties. In addition the current unofficial status of the procedure guide detracts from the robustness of the actual procedures themselves and the validity of a strong corporate response to challenge.

18. It is not expected that adoption of the procedure guide will result in any adverse financial or HR implications. The revised procedures will require modest changes to the working practices of the appraisals team, however these changes can be accommodated within existing resources.

Conclusion

19. The financial appraisals of third party entities are coming under greater scrutiny as a result of PCR 2015. The adoption of the procedure guide and associated PQQ criteria will give formal status to what is currently an internal departmental working document and will also present the opportunity to demonstrate transparency and compliance as procurement practices develop.

Appendices

- Appendix 1 – Chamberlain's Financial Appraisals: Procedure Guide and Manual, including Pre-Qualification Questionnaire financial criteria
- Appendix 2 – Procedure for Obtaining Chamberlain's Financial Appraisals and Comments on Reports: A Guide for the City Surveyor

Contact:
Caroline Al-Beyerty
Financial Services Director

T: 020 7332 1113
E: caroline.al-beyerty@cityoflondon.gov.uk

Appendix 1

City of London Corporation

CHAMBERLAIN'S FINANCIAL APPRAISALS

Procedure Guide and Manual

Michael Clarke
Clem Harcourt

SECTION 1: INTRODUCTION

1.1 ABOUT THIS PROCEDURE GUIDE

This procedure guide has been written to replace several existing documents within Corporate Treasury in order to present a consistent approach to financial appraisals regardless of the source of the request e.g. commercial lettings, City property developments, procurement projects, and ad hoc background checks. The guide seeks to incorporate best practice and officers' experience and knowledge developed over several years. The main changes to previous practice brought about by the Public Contract Regulations 2015 [PCR 2015] are that only 2 years' full signed accounts can be requested for appraisal in respect of procurement projects and the Pre-Qualification Questionnaire now discloses financial criteria to potential tenderers to facilitate self-assessment. All other appraisals remain outside of these changes. In every respect however – analytical techniques, quality of evidence, and interpretation of results - all financial appraisals are undertaken in a standard manner and this guide should be read accordingly.

1.2 WHAT IS A FINANCIAL APPRAISAL?

1. A financial appraisal of a company [or other entity which produces accounts – e.g. charity, limited liability partnership, sole trader] in the context of the Research and Technical team [R&T] is a desk top evaluation of publically available financial information, usually in the form of published accounts or summaries thereof. Constituent members of consortia are treated as standalone individual entities for the purposes of financial appraisals; the format of a consortium will determine the impact of the appraisal results.

2. A financial appraisal undertaken on a set of accounts is valid and relevant solely to that set of accounts <u>at the time of the appraisal.</u>

3. A financial appraisal is <u>not</u>:

    a. An exercise in due diligence [which is a phrase with a very specific meaning in law];
    b. A guarantee of future performance, whether good or bad;
    c. An opinion which applies forever afterwards;
    d. Fool proof, as it can only be as good as the available information;

4. All appraisals are undertaken to common standards of analysis and presentation and also require the same standard of information to be provided to the R&T team. City Procurement requests are based on 2 years' full signed accounts. Other departments' requests are based on 3 years' full signed accounts.

1.3 WHY UNDERTAKE A FINANCIAL APPRAISAL?

5. The City of London Corporation [CoL] has a diverse range of commercial and business interests. This means that its financial resources are exposed to risk, either by loss of income or by incurring excessive expenditure, when engaging with other entities. Financial appraisals are a means of mitigating that risk in some part.

6. The main areas of risk are retail and commercial leases, property developments, contracts for the supply of goods or services and the Approved List of Caterers for Guildhall functions.

1.4 WHAT SOURCES OF INFORMATION ARE USED?

7. The principal sources of information are company accounts, management accounts and business plans with financial information.

8. Credit reference agency reports are used for accounts information, company structure, shareholdings and directorship histories and not for the credit rating/procurement limits suggested by the agency. There are several reasons for this – credit ratings utilise information to which the CoL is not privy, the information is analysed by methodologies which are not disclosed and the ratings themselves are not directly applicable for the purposes of a Chamberlain’s financial appraisal.

9. Companies [or other entities] which are recently incorporated or still in inception will not have accounts as such to be appraised. In such instances business plans and supporting financial information are acceptable.

10. Accounts provided for appraisal should be:

    a. The accounts of the entity in question
    b. The latest available set;
    c. Fully signed where required;
    d. Full and not abbreviated accounts.

11. In the case of contract tenders, if at the date of the tender the last accounts were for a period ended more than ten months previously, interim management accounts and/or turnover statements for the current period should be provided.

SECTION 2: TECHNICAL

2.1 QUALITY OF THE INFORMATION REQUIRED

1. Where accounts are requested R&T requires full signed accounts which should meet the criteria in paragraph 10 above. The only exception allowable to this is where an entity has not been in existence long enough to file or produce this information. Prior year comparatives are not an acceptable substitute as they are usually lacking detailed notes.

2. Where a business entity is yet to be incorporated or has not yet filed any accounts it is the usual practice to request business plan type information and other ancillary information as follows:

   a. An opening balance sheet;
   b. Management accounts for the initial trading period to latest period [including detailed income/expenditure or profit & loss and latest balance sheet];
   c. A medium term trading/cash flow forecast [preferably first year analysed month by month] or medium term business plan;
   d. Information concerning the owners/partners/directors [names, dates of birth and addresses with postcodes];
   e. Information about parent and ultimate parent companies [names and registrations numbers] if applicable.

   This information should be produced and signed by a person in a senior position within the business.

3. Not every entity is obliged to produce accounts for filing or external scrutiny e.g. Limited Partnerships [N.B. these are distinct from Limited Liability Partnerships which are regulated in a similar manner to companies], sole traders. In such cases the certification or otherwise of the accounts can vary widely but as far as is practicable the same standard of verification should be applied. In all cases the standards of appraisal remain the same – the status of an entity does not influence the final opinion.

4. Business entities may be registered with regulatory bodies other than Companies House e.g. The Charity Commission, Financial Conduct Authority, and these can have different requirements for the filing of accounts. Companies registered in Crown dependencies or foreign countries are not necessarily governed by the same standards of certification and audit as mainland UK companies.

5. In such cases, if accounts are provided however they should still be checked for compliance with local statute/regulation as far as this can be ascertained. It is the general practice of R&T to accept such accounts as provided in good faith, subject to any additional source of information

available which can be cross checked to information in credit reference reports.

2.2 HOW FINANCIAL APPRAISALS ARE UNDERTAKEN

6. A financial appraisal is initiated by a request from another officer and should include all of the following information where applicable:

    a. The name of the contract;
    b. The total amount of contract [actual or estimated];
    c. The length of the contract in years;
    d. If the contract is more than 12 months in length - the specific phasing of contract amounts in each of the succeeding periods;
    e. The names of the tendering entities and company registration numbers [which should be sourced from PQQ/application form not financial accounts supplied];
    f. The reasons for particular concern if the contract cost is below any pre-determined de minimis level;
    g. Which OJEU procedures are applicable to the contract procurement;
    h. Whether or not the provision of financial statements was a mandatory condition under the OJEU procedure or similar.
    i. The name of the relevant contact officer; and
    j. The name of the Head of Finance who will financially review the associated Committee Report [if applicable].

7. The City Surveyor's department has a standard procedure to determine whether or not an appraisal is required and uses a request form which should include all of the relevant information for an appraisal if required.

8. The standard timescale applies to all appraisals but in cases where a short list exceeds 6 companies, an extension to this time should be agreed and confirmed with the requesting officer as soon as possible.

9. Once the information received for an appraisal is confirmed as being complete and correct the appraisal proper can commence.

2.3 HOW FINANCIAL APPRAISALS ARE UNDERTAKEN: ANALYSING THE FINANCIAL INFORMATION

10. Financial appraisals are conducted on a case-by-case basis and there is no set formula or threshold applied, provided the organisation has not failed in respect of any initial pass/fail criteria published on the PQQ. The results of the appraisal are down to the analysis of the information provided and the judgement of the individual R&T officers undertaking the appraisal.

11. In cases where the provision of financial information is a mandatory condition of a procurement exercise, R&T does not have freedom of action to obtain or utilise financial information unless it has been provided directly as part of the exercise. Once the information has been checked for quality

[see above section on quality] a standard working paper is completed. This applies regardless of whether a company files full accounts or not. Credit reference reports are to be obtained as near to simultaneous real time as possible to demonstrate equity of treatment.

12. Where an entity has not yet filed or published accounts then such business plan information as is supplied which also satisfies the quality requirements above may be used. This information rarely includes profit and loss accounts so it is not usually the case that a working paper can be completed. Credit reference agency reports should be obtained if available as these contain useful background information.

13. In general, the main items examined include, but are not limited to:

    a. Turnover;
    b. Profitability;
    c. Working capital;
    d. Net worth;
    e. Cash flow;
    f. Funding;
    g. Intercompany trading;
    h. Company ownership;
    i. Directors' appointments;
    j. The auditor's report;
    k. The directors' report;

14. Standard accounting ratios and Altman's Z-Score are used on PQQ as an initial check on financial suitability. Entities which fail to meet these criteria as published on the PQQ are not appraised. Entities which do meet these criteria will not necessarily be appraised as financially satisfactory.

15. In the case of charity accounts the proportion of restricted funds received and held should be noted. The charity's general effectiveness is more properly assessed from its level of general reserves and unrestricted incoming resources. The reserves policy should also be noted, whether or not this has actually been achieved. The relevance of restricted funds is not solely financial e.g. a charity's priorities may be dictated by the need to meet service delivery conditions attached to a restricted grant received.

16. The results of financial appraisals are reported to the requesting officer and the relevant departmental finance head if applicable.

SECTION 3: DEVELOPMENTS

3.1 CHALLENGES FACING FINANCIAL APPRAISALS

1. The financial and operational environment in which the City must function is changing, particularly with regard to contracts and tendering, procurement initiatives and accounting regulation. It is important that R&T keeps abreast of changes in order to maintain relevance and accuracy.

2. The main challenges identifiable in early 2015 include:

    a. Closer regulation of procurement and prescription of financial appraisal requirements under EU directives e.g. Directive 2014/24 was transposed into UK law as PCR 2015 with effect from 26 February 2015;
    b. Greater transparency of procedures required by City Procurement to meet challenges to tender evaluation results;
    c. The effects of using strict financial criteria on PQQ as an initial self-certifying assessment by prospective tenderers;
    d. How to monitor contractors' financial accounts over the life of contracts where the term extends past the next accounting date [as a minimum];
    e. How to deal with consortia/Joint Venture Companies and remain compliant with EU regulation where applicable;
    f. How to maintain a robust analysis in cases where usual appraisal practices are not ideally suited e.g. contracts tendered specifically with community interest companies/charities/social enterprises in mind;
    g. Incorporation of more factors into the appraisals themselves e.g. cash flow analysis, cost benefit analysis of rent free periods vs. empty rates costs, weighting of risk assessment of money vs. time period.
    h. Potential incorporation of more detailed financial appraisal information into committee reports which will raise the profile of R&T and emphasise the need for robust and defensible appraisal opinions in the face of member challenge.

3. How and when R&T meets these challenges will depend on the source – for example, forthcoming procurement regulation changes will be externally imposed and require immediate implementation whereas accounting standards will require internal review of working papers in the period after 2015.

SECTION 4: ANNEXES

ANNEXE 1: PQQ FINANCIAL CRITERIA

<u>Appraisal Of Applicants' Financial And Economic Standing</u>

1. Applicants are required to pass the City's appraisal of their financial and economic standing. The appraisal consists of three parts as described below:

PART A: Applicants are required to satisfy minimum standards with regards to their turnover requirement, standard accounting ratios and Altman's Z Score. Details of these standards and their calculation are set in para 2 to 5 below.

PART B: The Applicants' accounts will be examined following the process described in para 5 to 7 below to determine whether there is material evidence to show that they do not have the financial and economic standing to perform the contact.

PART C: Applicants with accounts that display any of the factors listed in para 8 below will automatically result in a failed appraisal. Applicants with accounts that display any of the factors listed in para 9 below will be failed unless there are strong mitigating circumstances.

Applicants Must Pass All Three Parts Of The Appraisal Process

PART A:

Turnover Ratio

2. Minimum Turnover Requirement:
The turnover requirement is calculated as the annual average of the last two reported financial years, divided by the estimated annual contract value. Applicants will be required to have a result of '**2.0**' or greater.

Standard Accounting Ratios

3. Applicants will be required to meet minimum standards with regards to the following accounting ratios calculated from their last reported set of financial accounts.

   a. Current Ratio: being total current assets divided by total current liabilities. Applicants will be required to have a result of '**Y.Y**' or greater.

b. Quick Ratio: being total current assets excluding stock and work in progress divided by total current liabilities. Applicants will be required to have a result of ‘**Z.Z**’ or greater.

c. Profits before interest and tax as a percentage of an entity’s turnover: Applicants are expected to be profitable and not to be loss making. No minimum profit percentage is prescribed as long as the applicant is profitable.

d. Profits before interest and tax as a percentage of total assets: Applicants are expected to be profitable and not to be loss making. No minimum profit percentage is prescribed as long as the applicant is profitable.

Altman’s Z Score

4. A definition and explanation of Altman’s Z score and its calculation can be found on: http://en.wikipedia.org/wiki/Altman_Z-score

5. Applicants are required to have an Altman’s Zones of Discrimination score of ‘**1.8**’ or greater calculated as follows from the latest reported set of financial accounts:

a. The sum of [Working Capital divided by Total Assets] multiplied by 1.2; plus
b. The sum of [Retained Earnings divided by Total Assets] multiplied by 1.4; plus
c. The sum of [Profits before interest and tax divided by Total Assets] multiplied by 3.3; plus
d. The sum of [Market Capital divided by Total Liabilities] multiplied by 0.6; plus
e. The sum of [Turnover divided by Total Assets] multiplied by 1.0.

f. The sum of factors (a)-(e) above is compared to Altman’s Zones of discrimination to reach a numerical score.

PART B:

Assessment of financial statements for evidence of financial and economic standing

5. In addition to the requirements set out in Part A above, the City will critically examine the following items in the accounts to determine whether the applicant has the financial and economic standing to perform the contract:

a. Turnover
b. Profitability
c. Working Capital
d. Net Worth
e. Cash Flow
f. Funding

g. Intercompany Trading
h. Company Ownership
i. Directors Appointments
j. Auditors Report
k. The director's report
l. Indices calculated on turnover, retained profit and working capital over three years.
m. Notes to the accounts

Where the applicant is a charity, the following items will also be considered:

a. The proportion of restricted funds received and held;
b. The level of general reserves;
c. The level of unrestricted incoming resources;
d. The reserves policy, and whether or not this has actually been achieved;

6. In relation to the items above, the City will examine year to year changes, the accuracy of the data, any unexplained large movements, any changes in ownership, unexplained restating of prior year comparative figures and any relevant narrative to establish whether the applicant has the financial and economic standing to perform the contract.

7. The applicant will be failed if in making the assessment above, there is material evidence to show that the applicant lacks the financial and economic standing to perform the contract.

PART C:

Factors which will lead to a failed appraisal of the applicant's economic and financial standing

8. The following factors **will** result in a failed appraisal of the applicant's financial and economic standing:

a. A qualified audit report on the latest set of accounts;
b. Loss making entities with negative working capital and negative net worth
c. Entities in administration;
d. A refusal to provide 2 years' full signed accounts where it is known that such information exists;
e. Signed accounts which are numerically inaccurate, incomplete or which contradict other versions of the same accounts;
f. Accounts with pages inserted belonging to other entities;

Factors which will lead to a failed appraisal of the applicant's economic and financial standing unless there are strong mitigating circumstances

9**.** Applicants with accounts displaying any of the factors listed below will result in a failed appraisal of their economic and financial standing unless there are strong mitigating circumstances shown in the accounts, or other financial documents that the applicant is able to provide to the satisfaction of the Chamberlain:

a. Accounts overdue for filing by more than one month;
b. Accounts disclosing a loss with negative working capital and whose net worth is negative if intangible assets are discounted.
c. Three or more late filings out of the last five of documentation required by Companies House eg the annual return or accounts;
d. Registrar's Motions to Strike Off from the register of Companies;
e. Entities operating under a Corporate Voluntary Arrangement or other such agreement with creditors;
f. An Emphasis of Matter raised by the Auditor eg on the validity or otherwise of a going concern statement;
g. Failure to disclose a conflict of interest revealed by examination of the accounts.

This page is intentionally left blank

City of London Corporation

PROCEDURE FOR OBTAINING CHAMBERLAIN’S FINANCIAL APPRAISALS AND COMMENTS ON REPORTS

A Guide for the City Surveyor

SECTION 1: INTRODUCTION

1.1 WHY UNDERTAKE A FINANCIAL APPRAISAL?

1. The City of London Corporation [CoL] has a diverse range of commercial and business interests which require it to interact financially with the wider world. This means that its financial resources are exposed to risk, either by losing income or by incurring excessive expenditure, when engaging with other entities. Financial appraisals are a means of mitigating or ameliorating such risks.

2. For the City Surveyor, the main areas of risk are retail and commercial leases and property developments, sales or acquisitions.

1.2 CIRCUMSTANCES FOR REQUESTING A FINANCIAL APPRAISAL

3. The circumstances for requesting an appraisal are based on the powers formally delegated to the Investment Property Directors and the procedures approved by Finance Committee for use by the Chamberlain's Department. The aim is to demonstrate that surveyors have taken adequate steps to identify and consider the financial risks to the City arising from the following proposed property transactions:

    a. New Lettings - Inside the 1954;
    b. New Lettings - Outside the 1954 Act;
    c. Lease Renewals – Protected;
    d. Lease Renewals – Unprotected/Contracted out;
    e. Rent Reviews;
    f. Assignments;
    g. Company Guarantees; or
    h. Sales, acquisitions, developments.

4. As a basic requirement all companies that are potential tenants or guarantors should be checked using the Companies House website www.companieshouse.gov.uk or in the case of registered charities www.charitycommission.gov.uk to confirm their existence and details. Searches can be performed on names (but please note that names can be similar) or registration numbers. There is also information concerning the date of incorporation, latest filed accounts and whether these accounts are full or abbreviated (i.e. full accounts include the profit and loss account with the turnover figure). This information will be needed to request a Chamberlain's financial appraisal (see below information requirements).

5. **A Chamberlain's financial appraisal is <u>not</u> required under internal procedures in the following circumstances:**

    a. The proposed rent is less than £15,001 p.a.; or

b. The proposed rent is greater than or equal to £15,001 p.a. and less than £25,001 p.a., where a six months' rent deposit* has been obtained; or
c. Rent Reviews, provided that the rent increase is less than £50,000 p.a.; or
d. Lease Renewals – Protected (except where there is a proposed change in the overall identity of the guarantor, or a reduction in the security); or
e. Quarterly Tenancies, Tenancies at Will, Licenses, Easements, Way Leaves, Rights of Light.

[* Plus the equivalent of VAT where elected to charge VAT]

6. However, please note surveyors are still able to request an appraisal voluntarily, if it is considered prudent to do so. For example, it is advisable to request an appraisal in the following circumstances [which is not an exhaustive list]:

    a. the rent is increasing by 25% or more; or
    b. there has been a problem with the tenant regarding rental payments; or
    c. the managing surveyors become aware of apparent changes in the fortunes of tenants.

7. **A Chamberlain's financial appraisal <u>is</u> required under internal procedures in the following circumstances:**

    a. The proposed rent is greater than or equal to £15,001 p.a. and less than a six month deposit* has been accepted; or
    b. The proposed rent is greater than or equal to £25,001 p.a. and less than £100,001 p.a. (see below for rents equal to and greater than £100,001 p.a.); and
    c. None of the exemptions detailed in paragraph 5 above apply.

    [* Plus the equivalent of VAT where elected to charge VAT]

8. **A Chamberlain's financial appraisal <u>must be</u> requested in the following circumstances as they are not delegated to the Investment Directors:**

    a. The rent is greater than or equal to £100,001 p.a. excluding Assignments
    b. All lettings, including lease renewals where the term is greater than or equal to 25 years; or
    c. Terms are below market value; or
    d. Rent reviews where the increase is in excess of £50,000 p.a.

9. When a Chamberlain's financial appraisal is <u>not</u> required, references for the prospective tenant should still be obtained.

1.3 HOW TO OBTAIN A FINANCIAL APPRAISAL

10. All sections of the "Request for Chamberlain's Financial Appraisal" form must be completed by the surveyors. The form must be sent to the Senior Accountant – Research & Technical (R&T) or to the Group Accountant in case of absence. Additional information may be sought from the surveyors by R&T following receipt and checking of the form.

11. The R&T team aims to complete appraisals within five working days of <u>all the necessary information</u> being received. Delays will occur if information is incomplete, inaccurate or ambiguous. If a faster response is required the surveyor must contact the Chamberlains in advance.

12. The principal sources of information are company accounts, management accounts and business plans with financial information. If a company files abbreviated accounts full versions should be requested by the surveyor. All appraisals are undertaken to common standards of analysis and presentation and also require the same standard of information to be provided to the Research and Technical team [R&T]. Appraisals are based on 3 years' full signed accounts.

13. Credit reference agency reports are used for accounts information, company structure, shareholdings and directorship histories <u>and not</u> for the credit rating/procurement limits suggested by the agency. There are several reasons for this – credit ratings utilise information to which the CoL is not privy, the information is analysed by methodologies which are not disclosed and the ratings themselves are not directly applicable for the purposes of a Chamberlain's financial appraisal.

14. If accounts are provided or obtained for any reason then there are certain requirements which need to be met for them to be deemed suitable for appraisal. Accounts should be:

    a. The accounts of the entity in question;
    b. The latest available set;
    c. Audited if required;
    d. Fully signed where required;
    e. Full and not abbreviated accounts.

15. Where accounts are requested R&T requires full signed accounts, which should meet the criteria in paragraph 14 above. The only exception allowable to this is where an entity has not been in existence long enough to file or produce this information. Prior year comparatives are not an acceptable substitute as they are usually lacking detailed notes.

16. Where a business entity is yet to be incorporated or has not yet filed any accounts, surveyors should request business plan type information and other ancillary information as follows:

    a. An opening balance sheet;

b. Management accounts for the initial trading period to latest period [including detailed income/expenditure or profit & loss and latest balance sheet];
c. A medium term trading/cash flow forecast [preferably first year analysed month by month] or medium term business plan;
d. Information concerning the owners/partners/directors [names, dates of birth and addresses with postcodes];
e. Information about parent and ultimate parent companies [names and registrations numbers] if applicable.

Please note this information should be produced and signed by a person in a senior position within the business.

17. Not every entity is obliged to produce accounts for filing or external scrutiny e.g. Limited Partnerships [N.B. these are distinct from Limited Liability Partnerships which are regulated in a similar manner to companies], sole traders. In such cases the certification or otherwise of the accounts can vary widely but as far as is practicable the same standard of verification should be applied. In all cases the standards of appraisal remain the same – the status of an entity does not influence the final opinion.

18. Business entities may be registered with regulatory bodies other than Companies House e.g. The Charity Commission, Financial Conduct Authority, and these can have different requirements for the filing of accounts. Accounts for companies in Crown Dependencies or foreign countries are not necessarily governed by the same standards of certification and audit as mainland UK companies.

19. R&T does not have access to financial information relating to private individuals. Directorship searches can however be undertaken if required and surveyors should provide the full name, date of birth and postcode of the person in question.

1.4 REPORTING OF FINANCIAL APPRAISAL RESULTS

20. A Chamberlain’s Financial Appraisal is always reported as a memorandum sent to the requesting Surveyor. Any other analysis produced by R&T which involves some presentation or interpretation of figures will contain the disclaimer “This is not a Chamberlain’s Financial Appraisal”.

21. The Chamberlain’s financial memorandum will normally be structured in three sections:

a. The first section details the salient points of the context in which the financial appraisal was undertaken. The requesting surveyor will need to check these points and advise of any changes or errors;
b. The financial information on which the appraisal has been undertaken and any other points that have been discovered; and
c. The overall opinion in relation to the original reason for the request. It is not possible to give 100% guarantee about success or failure;

however this is where the likelihood of financial risk and any mitigation is assessed.

22. Please note that the results of the appraisal and any other correspondence from the Chamberlain to surveyors during the process are for <u>internal</u> purposes only.

23. The surveyors should then use their judgement to decide whether to proceed with the transaction and the suitable level of security required(for the overall risk assessment), considering their negotiating position. It remains the City's policy to seek a six month rent deposit in respect of all new lettings although it is still for the surveyors to use their discretion in such cases, provided that an explanation is given to Members/Directors where such a deposit will not be obtained.

24. Please note that if an appraisal has been requested and subsequent events have meant that an appraisal is redundant, the surveyor must contact R&T team to withdraw the appraisal request at the soonest possible moment.

1.5 CHAMBERLAIN'S FORMAL COMMENTS ON REPORTS

25. Financial comments for reports can only be requested after the Chamberlain's financial appraisal. The Chamberlain's Department aims to complete comments on reports within three working days of the information being received. If a quicker response is required, the requesting surveyor must contact R&T team.

26. The type of report determines the requirement for a Chamberlain's comment. The two main types for lettings are a delegated authority report and committee lettings report.

27. In respect of Delegated Authority Reports, surveyors complete all of the sections in this standardised report and they are responsible for ensuring the information for the Director is accurate. Delegated authority reports do not require a Chamberlain's comment under internal procedures. However, the surveyor will need to show that if a financial appraisal has been requested if required according to the criteria above [paras.7 and 8] and accordingly considered as part of the final decision.

28. Where a six month deposit has not been obtained for new lettings, there should be a justification within the 'Rent Deposit' section.

29. In respect of Committee Lettings Reports, surveyors will complete most of the sections in this standardised report for the Property Investment Board and are responsible for ensuring the information is accurate. Surveyors' comments will most likely be included within the 'Tenants Payment Record' and 'Additional Information' sections. Where a six month deposit has not been obtained for new lettings, there should be a justification within the 'Rent Deposit' section.

30. The reports will require a Chamberlain's comment in the section heading "Chamberlain's Comment on Tenant's Financial Status". This section can only be written by R&T team for the Chamberlain.

31. Please note surveyors are not to complete this section by using the contents of the Chamberlain's financial appraisal memorandum.

32. Accordingly, the draft letting report for committee should be sent to the Senior Accountant – Research & Technical (Group Accountant in absence) in its final form with the "Chamberlain's Comment on Tenant's Financial Status" section left blank for completion.

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Agenda Item 10

Document is Restricted

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 11

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 12

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 15

Document is Restricted

This page is intentionally left blank