

Committee(s): Property Investment Board – For Information Corporate Asset Sub (Finance) Committee – For Information	Date(s): 12 December 2018 30 January 2019
Subject: Business Plan 2018-23 - Quarter 2 2018/19	Public
Report of: The City Surveyor (CS 478/18)	For Information
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Summary

This report provides details of progress in quarter 2 (July – September) 2018/19 against the 2018-23 Business Plan, an update on the commercial property market, and a financial statement.

Of the 21 Key Performance Indicators (KPIs) that are being monitored, eleven were assessed as green (on target) and four indicators were assessed as amber (marginally behind target). Five further indicators will be assessed throughout out the year. Energy consumption figures are routinely reported a quarter in arrears and the quarter one figure was also amber.

The amber cases are as follows:

- KPI. 2 Delivery of strategic asset plans – Corporate Property Group (PIB & CASC)
Target 100% by end 2018/19
Slightly behind project milestone targets. Other casework priorities and staff vacancies have delayed the progress of this KPI.
- KPI. 3 Service Based Review (SBR) savings (PIB & CASC)
Target £884,000 by end 2018/19
Anticipated shortfall on savings for security of £150,000 due to a change in the security model.
- KPI. 5 Energy consumption (quarter 1) (CASC)
40% reduction on 2008 baseline by 2026 (4% in current year)
The quarter 1 figure for energy consumption showed a 0.1% reduction.
Reductions at the Guildhall Complex, Boys' School and Courts partially offset by increases at the Barbican, Freeman's School, Mansion House and GSMD.
- KPI. 7 Property contract performance compliance (CASC)
Target 90% achieved 83%
The underperformance was due to poor performance from our Lift contractor. An action plan has been agreed.
- KPI. 10 Adherence to Budgetary Spend Profiles (PIB & CASC)
Quarter 2 profiled target 33% achieved 28%

There have been some programme delays in some capital projects which has negatively impacted this figure.

Recommendation

Members are asked to note the content of this report.

Main Report

Background

1. In line with the City Corporation's performance management system, this is a quarterly report on the progress made during quarter 2 compared to the 2018-23 Business Plan.

Current Position

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

Market Commentary

4. As the end of the calendar year approaches the UK economy remains resilient. All core sectors are expanding and continue to employ, whilst consumers are benefitting from a sustained recovery in real wages and record levels of employment growth. Retail spending has improved with volumes excluding fuel rising 3.6% in the three months to September on last year, and by 1.4% on the quarter.
5. Central London take-up fell slightly during the quarter with 3.4m sq ft transacted, above the 10-year average of 3.1m sq ft. The technology, media and telecommunications (TMT) sector was the most dominant in the period, leasing 36% of named take-up. The sector has not held the top spot since the same period in 2017, after being toppled by flexible offices, finance and the public sector in the subsequent periods. The pace of flexible office take-up has continued to slow over July – September with the sector taking just 357,000 sq ft. Total space taken by the sector so far this year now totals 1.16 m sq ft, down 5% year-on-year.
6. Availability remained stable at 13.7m sq ft, below the 10-year average of 14.9m sq ft. The Central London vacancy rate remained unchanged at 4.7%. Under offers fell 14% to 3.9m sq ft from an 18-year high in April – June of 4.3m sq ft.
7. The largest development to complete during the quarter was 387,000 sq ft at The Scalpel EC3 of which 181,600 sq ft is available, this is followed by 255,000 sq ft at 1 Southbank Place, SE1. At the end of the quarter, there was 13.9m sq ft of space under construction across Central London. The development pipeline has been

depleted by the high levels of pre-letting activity, with 49% of all space under construction having already been absorbed by the market.

8. Prime rents and rent free periods were unchanged across all Central London markets

Financial Statement

9. The 2018/19 quarter 2 figures reveal that against a latest budget of £30.1m the City Surveyor is forecasting an overspending on local risk of £1.747m (5.8%) at the year end. The most significant reason for this arises from the asset verification process, following the retender of the building repairs and maintenance contract, which has identified an additional £515,000 net of assets to be maintained. This has combined with additional cost pressures on the department arising from extra employee costs, a shortfall in third party income, and on overspending on various budgets in the Guildhall complex, including energy where a 30% increase in the market price (outside the City Surveyor's control) is anticipated from 1st October, to produce this forecast overspending.
10. Members should note the overspend on the Guildhall complex also includes an anticipated shortfall on Service Based Review (SBR) savings for security of £150,000 where, due to a change in the security model, this can no longer be achieved.
11. In response to this potential overspending, the City Surveyor has put a plan in place to recover the position by year end. Two bids have been made for extra budget, in respect of the additional assets requiring maintenance (£515k) and the Guildhall Security change of model (£150k). These have been supported by Members and are going through the formal committee approval process. In addition, a detailed examination of the overspend on reactive maintenance has revealed that some of the cost (£302k) can legitimately be met from agreed Additional Works Programme projects, which are outside the local risk budget.
12. Taking these three items into account, the forecast overspending that remains to be tackled for the rest of the year is reduced to a more manageable £780k or 2.5% of net budget and a savings plan has been put in place to bridge the gap. This comprises a recruitment freeze for all but essential posts, deferment of some lower priority cyclical works projects to 2019/20, intelligent use of the Guildhall building management system to reduce energy consumption, and further income generation. Prompt action on these areas now should mean the outturn is brought within budget at year end.
13. On a more positive note, rental income, which is budgeted under central risk, is forecast to be £5.7m higher than the Original Budget for 2018/19 (based on September 2018 Rental Forecast).

Overall Progress

14. Over the course of the last three months, the Corporate Property Advice Team (CPAT) won two prestigious awards.

15. The team won the Best Connected City award at the recent Wireless Broadband Alliance (WBA) Industry Awards. The awards honour the exceptional progress made in wireless networks, smart cities and remote wireless deployments among operators and technology vendors worldwide.

CPAT helped with the design, roll-out and management of the City's new wireless network. The project involved the building of 4G mobile “small cells”, which are housed on City street furniture such as lampposts, street signs, buildings and CCTV columns to provide enhanced mobile coverage at street level. The project will help ensure that the City is best placed to become an early adopter of 5G which is widely expected to become available in 2020.

16. The team, alongside the Remembrancer’s Office, also won the Independent Networks Co-operative Association (INCA) Conference Best Public Sector Impact Award. This was in recognition of the work to develop the Standardised Wayleave Toolkit. The toolkit is used to expedite the time taken to install broadband services across the UK. The toolkit is now the industry norm and will be promoted as part of Government best practice by the Department of Culture, Media and Sport.

17. 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 2.

Status ¹	Green	Amber	Red	TBC	N/A
Corporate Asset Sub Committee	9	4	0	1	3
Property Investment Board	9	3	0	0	5
Overall ²	11	4	0	1	5

18. Of the 21 Key Performance Indicators (KPIs) that are being monitored, eleven were assessed as green (on target) and four indicators were assessed as amber (marginally behind target). Five further indicators will be assessed throughout the year. Energy consumption figures are routinely reported a quarter in arrears and the quarter one figure was also amber.

19. The amber cases are as follows;

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

The objective is to analyse Corporate Asset Strategies to make sure that they are up to date and fit for purpose with a report to CASC on phase 2 by March 2019.

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.

At present other casework priorities and staff vacancies are delaying progress. The Asset Management SBR and the support of major transformation programmes is key focus within the department at present.

The recruitment of one surveyor is in progress.

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

There is an anticipated shortfall on savings for security of £150,000 due to a change in the security model. A bid has been made with respect to this shortfall and is currently in the Committee process.

- KPI. 5 Energy consumption (Quarter 1) (CASC)
40% reduction on 2008 baseline by 2026 (4% in current year)

The quarter 1 figure for energy consumption showed a 0.1% reduction. Reductions at the Guildhall Complex, Boys' School and Courts partially offset by increases at the Barbican, Freeman's School, Mansion House and GSMD.

The reductions at the Guildhall Complex have been a result of improvements to control systems and maintenance down times (steam generators) and control set points and time schedulers (heat). Increases at the Freeman's School was due to the new swimming pool, whilst those at the Barbican were due to issues around control settings following a very cold March. Mansion House had increased occupancy and the GSMD are investigating increased energy use by the Sundial gas boilers.

Members are to note that the definition of this measure has been updated to read 'energy consumption' rather than 'energy efficiency'. The second of these items is reported annually to Corporate Asset Sub Committee as part of the Energy Team's annual statement and reflects changes to the asset base and occupancy.

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

The objective is to manage contractor's Service Level Agreements and KPIs to ensure that at least 90% of the performance measures comply with contractual commitments.

The quarterly result primarily reflects the poor performance from our lift contractor. Performance review meetings have taken place at Director level and an action plan has been agreed. Additional service failures have been experienced in respect of security at the Barbican and a rectification plan is in place. There are early signs of improvement in both areas.

- KPI. 10 Adherence to Budgetary Spend Profiles (PIB & CASC)
Quarter 2 profiled target 33% achieved 28%

The objective is to ensure an outturn within a tolerance of 95% and 105% compared to budget forecasts. This measure includes both capital and revenue spend, Additional and Cyclical Works Programmes (AWP and CWP)..For the first six months of the year, the profile is to meet 33% of the year end forecast spend. The current figures show 28% attainment. There have been some programme delays in some capital projects which has impacted the overall figure.

Conclusion

20. This report provides an update at quarter 2 against the department's Business Plan KPIs. Performance is positive overall, with action in place to manage those items falling behind target.

Appendices

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

Background Papers

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

The City Surveyor – Risk Report Quarter Two (CS 479/18)

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