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| Committee(s): Corporate Asset Sub (Finance) – For Information Property Investment Board – For Information | Date: 05 June 2019 12 June 2019 |
| Subject: City Surveyor's Business Plan 2018/19 Quarter 4 | Public |
| Report of: The City Surveyor (CS 198/19) | For Information |
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Summary

This report provides details of progress in Quarter 4 2018/19 against the 2018-21 Business Plan, an update on the commercial property market, and a financial statement.

At the end of the year, the City Surveyor's Department achieved 14 of its 21 Key Performance Indicators (KPIs). Six measures did not meet their target, two being recorded as amber and four as red. One further item (performance against the MSCI benchmark) will be reported in quarter one.

The City Surveyor's Department continued to manage the City of London's property assets in a challenging environment, and the six indicators not meeting target reflects these challenges.

However, these difficulties were offset by achievements, some of which are detailed below.

The 2018/19 outturn reveals that against a latest local risk budget of £31.2m, the City Surveyor was £501k overspent (1.6%). This outcome is £492k lower than the forecast year end overspending at Quarter 3 of £993k.

Recommendation(s)

That Members note the content of this report.

Main Report

Background

1. In line with the City Corporation's performance management approach, this is a quarterly report on the progress made during Quarter 4 against the 2018-21 Business Plan.

Current Position

2. This report provides the latest budget information which is set out in Appendix A. Summary charts of performance in Appendix B and Appendix C provides a more detailed table of the department's Key Performance Indicators (KPIs). Market Commentary has been included in Appendix D.

3. In addition, you receive regular monitoring reports covering Rent Reviews, Lease Renewals, Arrears, Vacancies and Delegated Decisions. These provide key indications of the current market situation, particularly for directly managed properties.
4. A separate monitoring report on the risks within the department is also presented at this meeting.

Notable Achievements

5. The department continues to perform well. Some notable achievements are detailed below, and a full list is available upon request.
 - Acquisition of the Chartered Insurance Institute property and Barking Reach Power Station.
 - Restructure of the Guildhall Complex Operations and of the Energy Management Team.
 - The RIBA award shortlisting for Great Arthur House.
 - Delivery of Europe's fastest, free-to-use, outdoor Wi-Fi network
 - Continued out-performance of the MSCI benchmark over a ten-year timeframe.

Financial Statement

6. The 2018/19 outturn reveals that against a latest local risk budget of £31.2m, the City Surveyor was £501k overspent (1.6%). This outcome is £492k lower than the year-end overspend forecast at Quarter 3 of £993k and represents the efforts of the City Surveyor to bear down on costs and bring the budget back towards breakeven by year-end.
7. The principal areas of overspend were on the Guildhall complex and on the Departmental divisions of service.
8. For the Guildhall complex the overspend comprised of additional expenditure on employee costs, energy, and on repairs and maintenance at the Guildhall complex. The extra staffing costs relate mainly to additional security staff, where the team has filled vacant posts to reduce overtime and temporary staff charges. The energy costs reflect the 30% increase in market energy prices from October 2018 which has been outside the department's control. The extra repairs and maintenance spend is due to a higher level of essential reactive maintenance and more essential works being undertaken than had been anticipated in the budget. Some of this overspend is structural but this is not considered to be a problem for 2019/20 as Members approved a budget uplift for the complex of nearly £1m as part of the overall 2019/20 budget for the City Corporation.
9. The departmental budget was also overspent, principally due to a shortfall in professional fee income as a result of fewer major deals this year, and to additional employee costs arising from agency staff and from recruitment costs. The City Surveyor is examining ways to try and avoid a similar overspend in

2019/20 but much is dependent on market performance. Members will be kept advised of any issues in the quarterly monitoring reports.

10. The overspend on these two areas was in part offset by one-off savings on the City Fund Estate. As part of the plan to balance the budget, three cyclical works projects were largely deferred. These comprised lift works at 31 Worship Street and two projects at Leadenhall Market: refurbishment of some office space and emergency roof works which, following receipt of a full survey, were found capable of being incorporated into the main cyclical works project. Savings were also made due to lower voids in the period. This led to lower professional fees and advertising expenses. These savings were, in part, offset by lower dilapidation income due to lower tenant turnover. Subject to resources being identified, it is proposed to undertake the deferred projects in 2019/20.
11. Under Financial Regulation 2.2, any deficit on the total of a Chief Officer's local risk budgets is required to be carried forward and recovered from within the department's budget allocation for the following year. The City Surveyor's overall local risk budget for 2019/20 will therefore be reduced by the £501k overspend, and the City Surveyor is currently examining the business to identify potential areas of savings. The actions taken will be reported to Members in the Estimates Report presented to committees in the Autumn 2019.
12. On a more positive note, rental income, shown under central risk, exceeded the budget for the 2018/19 year with a final outturn of £136.3m some £6m more than the latest budget of £130.3m. The final outturn included over £6m of backdated rent collected.

Overall Progress

13. A Red-Amber-Green¹ (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 4.

| Status ¹ | Green | Amber | Red | TBC | N/A |
|-------------------------------|-------|-------|-----|-----|-----|
| Corporate Asset Sub Committee | 11 | 2 | 4 | 0 | 0 |
| Property Investment Board | 13 | 0 | 3 | 1 | 0 |
| Overall ² | 14 | 2 | 4 | 1 | 0 |

14. Of the 21 KPIs being monitored, 14 were judged as being on target (green) and six measures were behind target – two amber and four red. One further measure (performance against the MSCI benchmark – PIB) will only be available in the Quarter 1 update.

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.

15. The following six measures failed to meet their respective target as at the end of the reporting year:

| Reference | Title | Committee | Outturn | Target |
|-----------|---------------------------------------|--------------|---|---|
| KPI. 2 | Delivery of strategic asset plans | CASC | Phase 2 still being developed (red) | Phase 2 report to CASC |
| KPI. 3 | Service Based Review savings | CASC and PIB | £725k savings delivered (red) | £884k savings by 31/03/2019 |
| KPI. 5 | Energy Consumption | CASC | 2.5% reduction (amber) | 3.75% p.a. reduction on average |
| KPI. 6 | Space Utilisation (Guildhall) | CASC | Current average at 7.8m ² (amber) pending Walbrook Wharf moves | Average Area (NIA) per FTE - 7m ² by end 2018/19 |
| KPI. 7 | Contract Performance Compliance | CASC | 87% (red) | Achieve > 90% agreed SLAs and KPIs |
| KPI. 10 | Adherence to Budgetary Spend Profiles | CASC and PIB | 84% of projected spend delivered (red) | To deliver between 95% and 105% of projected spend |

A. KPI. 2 – Delivery of strategic asset plans (PIB / CASC) – Red
Target – report to CASC on Phase Two by the end of the year.

The Phase Two scope has been agreed, but engagement, collating data and preparation of new plans has not yet been achieved. This has been due to ongoing staff vacancies, engagement with the newly completed Phase One asset management plans, and other income generating priorities.

B. KPI. 3 – Service Based Review (SBR) Savings (PIB / CASC) – Red
Target - Delivery of £884k savings by end of the year. This comprised of:

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

Most of the above savings have been successfully delivered and budgets have been adjusted accordingly. Of the £884k target for this year, £725k was successfully delivered.

The 9k target relating to the Central Criminal Court (CCC) maintenance restructure for 2018/19 was not delivered. Over two years (including 2017/18) this restructure was designed to deliver £85k savings for the organisation. The City Surveyor's Department is supporting the CCC to meet this target.

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

C. KPI. 5 – Energy Consumption (CASC) – Amber
Target – 40% reduction on 2008 baseline by 2026 (3.75% per annum)

The 2018/19 annual performance shows an overall decrease of 2.5% in weather corrected energy consumption. Compared to the 2008 baseline, the Corporation has seen an absolute 19.4% reduction in energy consumption, and 16.5% when weather corrected.

The Guildhall complex was the main contributor to the energy reduction, supported by reductions at New Spitalfields Market, the Central Criminal Court and the City of London School. This was partly countered by significant increase in energy consumption at the Freeman's School, GSMD Milton Court and Tower Bridge.

D. KPI. 6 – Space Utilisation (CASC) – Amber
Target – Net Internal Area (NIA) per FTE - 7m² by end 2018/19

This has not been achieved by year end. Current average at 7.8 m², but further project to relocate Walbrook Wharf occupiers to Guildhall North wing and achieve new letting at Walbrook Wharf have both been approved by Members, with delivery anticipated in Quarter 2 in 2019/20, subject to funding availability and mechanical and engineering surveys.

E. KPI. 7 Property contract performance compliance (CASC) – Red
Target - 90% of KPIs achieved

The Quarter 4 performance is 87%, which is an improvement from the previous score of 79.7%.

The failings are due to continued poor performance from our lift contractor and failure by the mechanical and engineering contractor to upload planned preventative maintenance (PPM) information within the required timeframes.

The current security provider has had failings with its provision of mobile patrols, but this was corrected in the last month of the quarter.

Both the Security and Lift contractors are legacy companies who were unsuccessful in the tender process and are now being managed out.

- F. KPI. 10 Adherence to Budgetary spend Profiles (CASC/PIB) – Red
Target – actual capital project spend achieves between 95% and 105% of the revised budget.

Outturn was 84.2%.

The spend profile based on proposed capital schemes was £112,487,877. The final spend was £94,659,992 which equates to an underspend of £17,827,885 or 15.8%. Underspends on Cyclical Works Programme (CWP) and Capital Projects has been somewhat offset by an overspend on the Guildhall.

For the CWP, progress has been made in designing, specifying and procuring works, but delivery has been slower than expected in the last quarter. This has been largely due to necessary rephasing to avoid or minimise operational disruption, and to agree programmes with appointed contractors.

A number of Capital Projects have been delayed or placed on hold, which has resulted in the capital budget underspend. Examples include security enhancement projects (both City Fund and City Cash), 123/124 New Bond Street and the Finsbury Circus Gardens. As the last of these projects attests, numerous factors can influence project delivery, and items such as the delay to the delivery of TfL Crossrail, these are often outside the control of the department.

Data Quality Assurance

16. The City Surveyor is satisfied the data collected for the governance of projects, monitoring of the department's business plan and other objectives is consistent, high quality, timely, comprehensive and supports good decision making within the department.

Conclusion

17. The City Surveyor's Department has continued to effectively manage the City of London's property assets in a challenging environment.

Appendices

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| Appendix A | Budget Monitoring Statement |
| Appendix B | Headline Performance Charts |
| Appendix C | Key Performance Indicator Performance Table |
| Appendix D | Market Commentary |

Background Papers

The City Surveyor's Business Plan 2018-21

The City Surveyor – Business Plan Progress Report Quarter One (CS 368/18)
The City Surveyor – Business Plan Progress Report Quarter Two (CS 478/18)
The City Surveyor – Business Plan Progress Report Quarter One (CS 368/18)
The City Surveyor – Business Plan Progress Report Quarter Three (CS 069/19)
The City Surveyor's Department – Notable Achievements

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