

Committee(s): Property Investment Board – For Information Corporate Asset Sub (Finance) Committee – For Information	Date(s): 11 September 2019 25 September 2019
Subject: Business Plan 2019-24 Quarter 1 2019/20	Public
Report of: The City Surveyor (CS 373/19)	For Information
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Summary

This report provides:

- An update to the end of year 2018/19 progress report (CS198/19) in relation to two measures which were not available at the time, energy efficiency and the MSCI return benchmark performance.
- Details of progress in quarter 1 (April – June) 2019/20 against the 2019-24 business plan, an update on the commercial property market, and a financial statement.

Of the seventeen Key Performance Indicators (KPIs) that are being monitored, eleven were assessed as green (on target) and one indicator was assessed as amber (marginally behind target). Five indicators will be assessed throughout out the year.

The amber case is as follows:

- KPI 4 Property contract performance compliance (CASC)
Achieved 83% against a target of 90%.
The underperformance was due to the previous lift contractor, replaced as of July 2019, unable to meet their contracted targets.

Members should note the City Surveyor is forecasting a year end overspend of £586k due to the need to recover last year's net overspend. Budgets are being reviewed by the City Surveyor with a view to bring the department into balance by year-end.

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 the quarter 1 update report compared to the 2019-24 business plan.

Current Position

2. This report provides the latest budget information which is set out in appendix A and Key Performance Indicator (KPI) table in appendix B. Furthermore, charts that your committee are particularly interested in are included in appendix C.
3. In addition, you receive regular monitoring reports covering rent reviews, lease renewals, arrears, vacancies and delegated decisions. These provide key indications of the current market situation, particularly for directly managed properties.
4. A separate monitoring report on the risks within our department is also presented at this meeting.

Quarter 4 2018/19 Update

5. At the time of the end of year report it was not possible to update your committee with details on the full suite of indicators. This was due to the availability of data at the time of the report. An update on these items is provided below. Note that due to the annual update of our KPIs, the reference numbers have been updated.

KPI 5 Energy efficiency (KPI 2 for the current year)

6. The 2018/19 annual performance shows an overall decrease of 2.5% in weather corrected energy consumption compared to 2017/18. This is ~0.5% short of the annual target for a ~3% reduction per year. Compared to the 2008/09 baseline, the performance to the end of 2018/19 indicates a 19.4% reduction in absolute energy consumption, translating to a 16.5% reduction when corrected for the weather. This is short of the target by ~1.5%. At the end of 2018/19, the City Corporation should have reduced consumption by 18% in order to be on course for the 40% reduction by 2025/26.
7. The Guildhall complex was the main contributor to the energy reduction, supported by reductions at New Spitalfields Market, Central Criminal Court, Barbican Arts Centre and City of London School. This was partly countered by significant increases in energy consumption at CoL Freeman's School, GSMD Milton Court and Tower Bridge.

KPI 17 Outperform Morgan Stanley Capital International (MSCI) return benchmarks (KPI 14 for the current year)

8. Performance was not reported on in the previous monitoring report (quarter 4 2018/19) as the data had not been published by the MSCI at that time. A separate report was presented to Property Investment Board on 17 July with further detail on performance monitoring on the City Fund, City Estates and Bridge House Estates (CS 278/18).
9. The strategic objective for all three funds is to out-perform the benchmark on an annualised five-year basis. It should be noted that all funds outperformed the

benchmark on this basis and overall the “House Fund” achieved a 13.4% return compared with the benchmark of 11.4%.

10. The total annualised returns, for the “House Fund” and the three property estates over five years were as follows:

Estate	1 Year			5 Years		
	Total Fund Return (Year to March 2019%)	Benchmark Return %	MSCI Universe Return %	Total Fund Return%	Benchmark Return %	MSCI Universe Return
“House Fund”	7.3	5.6	3.6	13.4	11.4	9.1
Bridge House Estates	13.1	5.6	3.6	14.7	11.4	9.1
City’s Estate	6.0	5.6	3.6	13.9	11.4	9.1
City Fund	5.7	5.6	3.6	12.0	11.4	9.1

Market Commentary

11. Although political uncertainty is impacting the market, the most crippling factor in the City investment market is a lack of availability. At the start of July, there are only 19 buildings being openly marketed in the City, worth £928.9m. At this point in 2018 there was £2.99bn on the market across 45 deals. Investor appetite remains strong, reflected in the competitive bidding for the majority of properties on the market, as investors continue to be frustrated by unwilling vendors who in turn are cautious about where to reinvest their capital.
12. Total City office supply at the end of May stood at 6.6m sq ft, falling by 1.8% on the end of last month and equating to a vacancy rate of 5.1%. This is down on May 2018 by 70 bps, and down on the long-term average by 150 bps. However, this will increase from October as all schemes due to complete in by March 2020 will be included into current supply. This will include 22 Bishopsgate, EC2 which still has circa 1m sq ft of space remaining, although approximately 200,000 sq ft is currently under-offer.
13. Prime City yield remains at 4.25%, which compares with the West End prime yield of 3.75%. Prime rents remained the same across Central London; in the City £71.00psf, the West End £107.50psf, City Fringe £75.00psf and Docklands £48.50psf.

Financial Statement

14. The 2019/20 quarter 1 figures reveal that, against a latest budget of £34m, the City Surveyor is forecasting an overspend on local risk of £586,000 (1.7%) at year-end. The main reason for this is a reduction in the latest budget of £501,000 as a result of the City Surveyor’s net overspend in 2018/19. Under financial regulations any deficit on the total of a Chief Officers local risk budgets in one year is required to

be carried forward and recovered from within the department's budget allocation for the following year, unless specifically waived by the Finance Committee.

15. The City Surveyor is currently reviewing how this overspend can be recovered in 2019/20 and, in addition to budget reductions, action may include a bid to Finance Committee for relief from the overspend arising from extra security costs at Guildhall. This was due to the increased threat level in 2018/19 which was not within the City Surveyor's control. Details of the budget recovery plan will be included in the estimates report presented to Members in the Autumn.
16. Excluding this legacy issue, the City Surveyor at quarter 1 was essentially in a breakeven position. Reactive repairs and maintenance spend across the operational estate remained a significant budget pressure but was largely offset by savings on the Guildhall complex, mainly on the energy budget through energy efficiency measures.
17. On a more positive note, rental income, which is budgeted under central risk, is forecast to be £5.4m higher than the Original Budget for 2019/20. This extra income is principally on Bridge House Estates.

Overall Progress

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

Status ¹	Green	Amber	Red	TBC	N/A
Corporate Asset Sub Committee	8	1	0	1	3
Property Investment Board	9	0	0	0	4
Overall ²	11	1	0	1	4

19. Of the seventeen KPIs being monitored, eleven were assessed as being on target (green) and one indicator was slightly behind target (amber). Four indicators will be assessed throughout the year (N/A) and a further indicator is regularly reported a quarter in arrears (KPI 2 – Energy efficiency).
20. The amber KPI case is as follows;

- KPI 4 Property contract performance compliance (CASC)
Target 90% achieved 83%

The failings are largely due to the previous lift company, replaced as of July 2019, and the failure by the Mechanical and Electrical (M&E) contractor to upload

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.

planned preventative maintenance information within the required timeframe. The M&E contractor has created an action plan to get matters back on track.

Conclusion

21. This report provides an update at quarter 1 against the department's business plan KPIs. Performance is positive overall, with only one measure failing to meet target.

Appendices

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

Background Papers

The City Surveyor – End of year business plan progress report (CS 198/19)

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