

Committee(s): Property Investment Board – For Information Corporate Asset Sub (Finance) – For Information	Date: 22 July 2020 22 July 2020
Subject: Business Plan Progress 2019-24 Quarter 4 2019/20	Public
Report of: The City Surveyor (CS 203/02)	For Information
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Summary

This report provides details of progress in quarter 4 2019/20 against the 2019 – 24 Business Plan, an update on the commercial property market, and a financial statement.

Fourteen of the department’s seventeen performance indicators were ahead of target (green) at the end of the year. One indicator (MSCI Performance) was provisionally assessed as green whilst we await final figures. KPI. 2 – Energy Consumption is routinely reported a quarter in arrears. Two indicators finished the year behind target and are detailed below. KPI. 3 was less than 1% off target so has been assessed as amber.

Reference	Title	Committee	Outturn	Target
KPI. 3	Space Utilisation	Corporate Asset Sub Committee	£3653 / FTE	£3620 / FTE
KPI. 5	Adherence to Budgetary Spend Profiles	Corporate Asset Sub Committee, Property Investment Board	84% of projected spend delivered	To deliver between 95% and 105% of projected spend

Also included is the financial outturn for the City Surveyor’s Department. At the end of the year the department was £320,000 (1%) overspent on the overall local risk budget. The principal reason for the overspend was the decision in late March to waive the service charges for Phase 6 Leadenhall Market cyclical external repairs and redecorations. In accordance with Financial Regulations this overspend will be carried forward to be recovered against the 2020/21 local risk budget.

City Surveyor’s Department continued to manage the City of London’s property assets in a challenging environment. In addition to achieving the majority of the Key Performance indicators there were some other notable achievements. These included vacant possession of 100 Brewery Road (light industrial) and the conclusion of pre-contract investigations, with the site now ready for a major refurbishment (42,400 sq ft). The unconditional sales of Wood Street and Snow Hill completed at £54.9m in

January 2020, with nil-rent leasebacks to the City of London Corporation for the temporary use for the City of London Police. Sale prices achieved were in excess of expectations.

More recently the department has been working hard to ensure the continued operation of key sites during the period of Covid-19 shutdown. This has included security and essential building maintenance, ensuring that critical services were maintained for City communities. The department is now commencing the process of preparing sites for further re-occupation. The commitment of departmental staff has been commendable throughout this challenging period.

These activities and many more contribute to not just the department's aims and objectives, but also enable the wider organisation to service their communities in pursuit of the City of London's Corporate Plan.

Recommendation(s)

That Members 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 4 (January – March) against the 2019-24 Business Plan.

Current Position

2. This report provides the latest budget information which is set out in Appendix A. Appendix B provides a detailed table of the department's Key Performance Indicators (KPIs). Charts of performance indicators that are of interest to your Committee are included in Appendix C.
3. In addition, Members receive regular monitoring reports covering Rent Reviews, Lease Renewals, Arrears, Vacancies and Delegated Decisions. These provide 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.

Financial Statement

5. The 2019/20 outturn figures reveal that, against a latest budget of £32.2m, the City Surveyor's Department overspent its local risk for the year by £320,000 (1%). The principal reason for the overspend was the decision in late March to waive the service charges for Phase 6 Leadenhall Market cyclical external repairs and redecorations. This amounted to some £363,000 of income foregone and tipped the outturn into overspend. Further details of the outturn are set out in Appendix A

6. In accordance with Financial Regulations the £320,000 deficit on the total of a City Surveyor's local risk budget will be carried forward and recovered from the department's budget allocation for 2020/21.
7. On a more positive note, rental income, which is budgeted under central risk, is forecast to be £2.009m higher than the Latest Approved Budget for 2019/20. This extra income is principally on Bridge House Estates.

Market Commentary

8. A rebound in the central London office investment market at the start of the year following the Conservatives comprehensive election victory has been promptly overshadowed by COVID-19. According to the industry experts, Avison Young, £2.40bn was transacted in the first three months of 2020 which was 22% below the 10-year average for the period, and 12% below the same time last year. Transaction activity in April to June will be much lower reflecting the impact of COVID-19. There is evidence of a flight to safety as the limited pool of investors still in the market seek assets with long leases or let to the government.
9. Avison Young reported that central London office take up over January – March 2020 totaled 2.4 million sq ft which was 28% below the last three months of 2019, but only 8% down on the 10-year average. A significant decline is expected in over the next three months, not least because physical building inspections have stopped. On the plus side the development pipeline is constrained with 51% already pre let and just 3.0 million sq ft of new space available. However, availability may increase as occupiers begin to release space back to the market because staff continue to work from home or businesses contract as the economy weakens. In respect of the retail sector a significant number of tenants are struggling to pay rent on existing sites and unsurprisingly are not expanding at the current time.
10. JLL's Prime City yield is 4.00%, which compares with the West End prime yield of 3.50%. Prime rents in the City are £65psf - £75psf, the West End £105psf-£115psf, City Fringe £60psf - £70psf and Docklands £45psf - £50psf.

Overall Progress

11. 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 4.

Status ¹	Green	Amber	Red	TBC	N/A
Corporate Asset Sub Committee	10	1	1	1	0
Property Investment Board	12	0	1	0	0
Overall ²	14	1	1	1	0

12. Fourteen of the department's seventeen performance indicators were assessed as green at the end of the year. One indicator (MSCI Performance) was provisionally assessed as green whilst we await final figures. KPI. 2 – Energy Consumption is routinely reported a quarter in arrears.

13. The following indicators finished the reporting year behind target:

- KPI. 3 – Space Utilisation (CASC)
Outturn at £3,653 / FTE against a target of £3,620 / FTE
Amber

The figure achieved at the end of the year was less than 1% above the target set. Whilst performance did not achieve the end of year target, it should be reflected the equivalent position at this stage last year was £4,702 / FTE, so a significant reduction has been achieved. The planned moves from Walbrook Wharf have successfully been completed and the vacated space has been re-let commercially.

- KPI. 5 – Adherence to Budgetary spend Profiles (CASC/PIB)
The objective is to ensure actual spend compared to the revised budget is within the band 95% to 105%. Outturn was 84.15%.
Red

The drivers of this underspend were twofold. There were some projects associated with the Additional Works Programme (AWP) & Cyclical Works Programme (CWP) that were slightly behind target. A report is being presented to CASC in relation to these activities.

Secondly, there was some property project spend which could not be undertaken within year due to delays. These projects are being monitored closely.

Notable Achievements

14. The City Surveyor's Department has continued to deliver results for the organisation in support of the new Corporate Plan.

A full list of the City Surveyor's achievements is available upon request.

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.

Data Quality Assurance

15. 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

16. The City Surveyor's Department has continued to effectively manage the City of London's property assets in a challenging environment. Overall, the 2019-20 year was positive for the department, with nearly all KPIs achieved.

17. Looking forward, the impact of Covid-19 on departmental delivery will undoubtedly be challenging. However, the department is well placed to achieve its objectives, whilst effectively managing its risks.

Appendices

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

Background Papers

The City Surveyor – The City Surveyor's Business Plan 2019-24
The City Surveyor – Business Plan Progress Report Quarter 1 (CS 368/18)
The City Surveyor – Business Plan Progress Report Quarter 2 (CS 496/19)
The City Surveyor – Business Plan Progress Report Quarter 3 (CS 058/20)

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