Committee(s):	Date(s):
Corporate Asset Sub (Finance) Committee – For Information Property Investment Board – For Information	15 September 2020 16 September 2020
Subject: Business Plan 2020-25 Quarter 1 2020/21	**Public**
Report of: The City Surveyor (CS 300/20)	**For Information**
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Summary

This report provides Members of Property Investment Board (PIB) and Corporate Asset Sub (Finance) Committee (CAsC) details of progress in quarter 1 (April to June) 2020/21 against the 2020-25 Business Plan. It provides Members with an update on the commercial property market and a financial statement.

This report also provides an update to the end-of-year 2019/20 Progress Report (CS 203/02) in relation to KPI. 2 Energy efficiency and KPI. 17 Outperformance of MSCI return benchmarks.

At the time the Business Plan 2020-25 was approved by committees (PIB in December 2019 and CAsC in January 2020), it was envisaged to monitor all the seventeen Key Performance Indicators (KPIs) using the Red Amber Green (RAG) assessments. The Covid-19 pandemic has altered our capacity to accurately target set three of our measures in relation to the investment estate.

Of the seventeen KPIs that are being monitored, five were assessed as green (on target) and five indicators were amber (marginally behind target). Three items will not have a RAG assessment made, and four further measures will be assessed throughout out the year.
The amber indicators were the following:

- KPI. 1 – Asset realisation (CAsC)
- KPI. 3 – Space utilisation (CAsC)
- KPI. 5 – Adherence to budgetary spend profiles (PIB and CAsC)
- KPI. 9 – Capital project Gateway reports (PIB and CAsC)
- KPI. 16 – Delivery of strategic utility infrastructure

The City Surveyor is currently forecasting a year-end overspend of £301k on a budget of £32.732m (0.9%). This is as a result of a shortfall in professional fee income, fundamental review savings being placed on hold awaiting the target operating model, and the 2019/20 departmental overspend being brought forward.

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 1 (April – June) compared to the 2020-25 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. 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. This includes a specific appendix on risks relating to Covid-19.

Financial statement

5. The monitoring statement attached at Appendix A reveals that, against a total local risk budget of £32.732m for the year, the City Surveyor is forecasting an overspend of £301k (0.9%).

6. This is principally due to a reduction in professional fee income due to fewer property deals during the pandemic, an overspend on salaries due to agreed fundamental review savings being put on hold awaiting the City Corporation's new target operating model, and the brought forward overspend from 2019/20. These costs have, in part, been offset by savings driven by Covid-19 – particularly the closure of the Guildhall and other operating properties.

7. The City Surveyor is examining his budgets with a view to eliminating the deficit by year end.

8. Members should note that the Covid-19 is having an adverse impact on rental income for the year. The City Surveyor is updating his rental forecasts to be presented to the September Property Investment Board. This will provide more information on the likely financial impact.

Market commentary

9. For the occupier market, JLL reported that central London office take up in the first three months of the calendar year totaled 1.7 million sq ft which was 22% below the 10-year average (2.2 million sq ft) for these months and 25% below the same period in 2019. This reduction was partly due to a slow-down in economic activity after the new year, but also due to the run up to the UK Covid-19 lockdown, as sentiment was poor following the first lockdown in Italy from February 2020.

10. The impact of Covid-19 can be clearly seen in Collier's take up figures for April to June 2020 which were 65% down year-on-year. The vacancy rate only increased marginally from 4.80% for January to March to 5.30% for April to June which compares to the 10-year quarterly average of 5.7%. However, since lock-down there has been a noticeable increase in tenant space being released back to the market. This trend is likely to continue but it is hoped that shortages of speculative supply will dilute the impact.

11. 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. An increase in the number of retail businesses entering administration was seen during March to June, a trend which is expected to continue.

12. Whilst there was a rebound in the central London office investment market at the start of 2020 following the Conservatives election victory, this has been promptly overshadowed by Covid-19. According to Avison Young, £2.40bn was transacted in January to March 2020 which was 22% below the 10-year average and 12% below the same period last year. Investment volumes for April to June were significantly reduced at £682m, 81% down on the long-term average, 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.

13. 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.

Business Plan progress reporting

Quarter 4 2019/20 update

14. In the quarter 4 update (CS 203/02) two measures were flagged to be reported to Committee a period in arrears.

    A. KPI. 2 – Energy efficiency (CAsC)
    Reduction of 4.1% in quarter 4, compared to a year-end reduction target of 4%.
    Green

    Smithfield Market was the main contributor to the energy reduction, supported by reductions at Guildhall Complex, Central Criminal Court, Street Lighting and Milton Court.

B. KPI. 17 – Outperform Morgan Stanley Capital Index (MSCI) benchmark (PIB) Green

Whilst an indicative assessment was made in July, the final figures have now been published by MSCI.

Estate	Total Fund Return (Year to March 2019) %	Benchmark Return %	MSCI Universe Return %	Income Return for the Estates %	Capital Growth for the Estates %
"House Fund" (provisional)	8/9	2.2	-1.1	-	-
Bridge House Estates	11.6	2.2	-1.1	3.2	8.2
City's Estate	8.3	2.2	-1.1	3.3	4.9
City Fund	6.1	2.2	-1.1	3.6	2.5

The House Fund, City's Estate, Bridge House Estates and City Fund all outperformed the MSCI Benchmark (Greater London Property) and the UK Universe (All UK Property) annual total return.

This compares with the annual returns on MSCI UK Equities at -19% and JPM 7-10 Years Government Bonds Index at 6.4%.

Quarter 1 2020/21 update

Coronavirus

15. Ordinarily the department would report a RAG status against all its seventeen KPIs. This is based upon performance against target, or expected, performance. The Covid-19 pandemic has altered our capacity to target set many of our measures, particularly in relation to the investment estate. The current level of uncertainty is such that it is not possible to accurately predict what 'good' performance looks like.

16. Whilst many KPIs will be impacted by Covid-19, the ones that will not be RAG assessed this year are as follows:

    A. KPI. 11 – Rental forecasts
    At the time of publishing this report the rental forecast numbers were still being finalised. This is due to the additional complexity as a result of Covid-19. Figures will be separately to PIB in September.

    B. KPI. 12 – Minimise arrears
    Arrears have increased to 24.87% including deferrals of 14.99%. For the period this was a better result than many of our industry peers.

    C. KPI. 13 – Minimise voids
    Voids are reported twice a year. As of 1 June, the void figure was 2.94%.

17. Members will note the inclusion of the thematic Covid-19 risk register as part of your regular Risk report. This includes a specific risk relating to the impact on our investment property returns.

Performance

18. 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 1.

Status[1]	Green	Amber	Red	No RAG	N/A
Corporate Asset Sub Committee	5	5			3
Property Investment Board	3	3		3	3
Overall [2]	5	5		3	4

19. Of the seventeen KPIs being monitored, ten KPIs were affected by Covid-19. Whilst there has been significant attention on the impact to the investment property estate, activities such as project delivery, asset utilisation, and budget spend have also been affected. This is reflected in the number of KPIs that are currently recorded as being off target.

20. Overall, there were five indicators that were amber for the period. These relate to:

A. KPI. 1 – Asset realisation (CAsC)
Current performance at £1.6m against an end-of-year target of £45.3m.
Amber

Covid-19 has impacted lease events and planned disposals. Rental support and attention being provided to existing tenants (560 tenancies across portfolio).

B. KPI. 3 – Space utilisation (CAsC)
Current performance is off-target to meet the end-of-year target of £3,620/FTE.
Amber

The end-of-year target on this measure represents a reduction of 5% on the cost per full time equivalent (FTE) member of staff from the 2019/20 figure of £3,826/FTE.

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[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.

As a result of the March 2020 Covid-19 lockdown, the Guildhall complex was completely vacated for much of Q1 (except for approximately 20 keyworkers). As the City Corporation continues to navigate towards the end of lockdown period, the City Corporation will continue to review how we manage the phased return to the office and to improve its utilisation.

C. KPI. 5 – Adherence to budgetary spend profiles (PIB and CAsC)
Current performance is off-target to meet the end-of-year target to meet between 95% to 105% of projected spend.
Amber

Due to the Covid-19 lockdown, and the subsequent adherence to social distancing, some projects have had delayed commencement or delivery. For the Additional and Cyclical Works Programmes, over 70 projects are now back onsite. Contractors have been keen to recover lost revenue from March and April, so we should see accelerated progress.

Guildhall and Corporate Facilities Management spend has been less than anticipated as many City buildings have been closed or working at reduced capacity resulting in less reactive repairs being undertaken.

D. KPI. 9 – Capital project Gateway reports (PIB and CAsC)
57% complete against a target of over 70%.
Amber

The lower than anticipated presentation of Gateway reports to Committee is a direct result of Covid-19. Over the period, several Gateway 6 (Outcome) reports were scheduled to be presented to Committee. However, in line with Corporate guidance, these “for information” reports were delayed until the remote Committee process was embedded. These reports should clear over the coming months.

E. KPI. 16 – Delivery of strategic utility infrastructure
Off-target against end-of-year project targets.
Amber

Due to changes in the market, it is now unlikely that the 150 locations will be rolled out with new small cells. Instead, Cornerstone is reviewing proposals to enhance existing 240 locations with new technology to serve all four mobile networks. These physical changes to street furniture may pose visual considerations and will need approval from the Streets & Walkways Committee. The earliest expected start date for this work is quarter 4 2020/21.

Conclusion

21. This report provides an update at quarter 1 against the department’s Business Plan KPIs. The department is dealing with several challenges as a result of Covid-19 and is endeavouring to maintain and maximise its performance over this testing period. The commitment of staff over the last six months should be commended.

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 2019-24 Quarter 4 Update (CS 203/02)

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