Committee(s)	Dated:
Property Investment Board Corporate Asset Sub Committee	17 March 2021 28 April 2021
Subject: Business Plan 2020-25 Quarter 3 2020/21	**Public**
Which outcomes in the City Corporation's Corporate Plan does this proposal aim to impact directly?	**4, 7, 12**
Does this proposal require extra revenue and/or capital spending?	**No**
If so, how much?	**N/A**
What is the source of Funding?	**N/A**
Has this Funding Source been agreed with the Chamberlain's Department?	**N/A**
Report of: The City Surveyor (CS 041/21)	**For Information**
Report author: John Galvin / Faith Bowman Business Performance and Improvement	

Summary

This report provides Members of Property Investment Board (PIB) and Corporate Asset Sub (Finance) Committee (CAsC) details of progress in quarter 3 (October to December) 2020/21 against the 2020-25 Business Plan. It also provides an update on the commercial property market and a financial statement.

The department continues to focus on tenant retention across both the investment and corporate estates. The department is also closely tracking productivity on our project sites. Social distancing limits our capacity to deliver projects efficiently, so this is an important metric for the next six months.

The department continues to provide performance information on all 17 Key Performance Indicators (KPIs) that were agreed as part of the Business Plan in December 2019. Due to the unpredictability of the Coronavirus situation, we are not ascribing a Red-Amber-Green (RAG) status to three of our KPIs which focus on the investment property estate.

For quarter 3, four performance indicators were ahead of target (Green) and five measures were marginally behind target (Amber). In addition to the three KPIs where we are not reporting RAG status, one additional is typically reported a quarter in arrears. Two further indicators are reported bi-annually, and two annually.

The amber indicators were the following:

- KPI. 1 – Asset realisation and additional income (CAsC)
- KPI. 3 – Space utilisation (CAsC)
- KPI. 5 – Adherence to Budgetary Spend Profiles (CAsC and PIB)
- KPI. 16 – Delivery of strategic utility infrastructure (CAsC and PIB)
- KPI. 17 – Supporting the retention and inward investment of business (CAsC and PIB)

The City Surveyor is currently forecasting a year-end overspend of £255k on a budget of £32.55m (0.78%). 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. These have been partially been offset by savings on the Guildhall Complex, and a lower than anticipated reactive repair spend.

Recommendation(s)

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 3 (October to December) 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 information pertaining to 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 appendix on risks relating to Covid-19.

Financial statement

5. The monitoring statement for quarter 3, set out in Appendix A, reveals that against a profiled budget of £23.2m the City Surveyor was £290,000 underspent (1.3%) at quarter 3. This was principally due to savings on the Guildhall Complex due to reduced occupancy as a result of the pandemic partly offset by an overspend on departmental salary budgets due to Fundamental Review reorganisation saving, assumed in the Original Budget, being placed on hold pending the Target operating Model; reduced professional fee income due to the pandemic; and the inclusion of the City Surveyor's overspend from 2019/20. These costs in part have been offset by savings on the Guildhall Complex due to reduced occupancy as a result of the pandemic.

6. The City Surveyor is, however, forecasting that this overspend will reduce by year-end to £255,000 against the budget for the year of £32.55m (0.78%) mainly due to some of the savings made on the Guildhall Complex being utilised to fund works

to make the complex more Covid-19 compliant. Further efforts are also being made to identify savings to bring the local risk budget back to breakeven by year-end.

7. The position on rental income, held under central risk is also being kept under close review due to the impact of the pandemic. In addition to the £3m increase in the bad debt provision required across the three estates, and included in the estimates report to Property Investment Board in December, a further increase of £2.7m was identified in a recent review based on the debt at the end of the December quarter. The anticipated provision required for the year for all three estates has therefore increased to £11m.

Market commentary

8. For the occupier market Savills reported that central London office take up fell to recessionary lows, similar to the levels seen during the Global Financial Crisis (GFC) of 2008/9 and the DotCom crisis of 2002/3. Take-up across Central London reached 4.6m sq ft at the end of the 2020. This was down 58% on the long-term average for the capital and down 60% on calendar 2019. We also saw half the volume of transactions we have seen complete over the past 10-years, with 413 transactions completing, by the end of 2020. The total number of transactions to complete remains heavily weighted towards January – March 2020, with it accounting for 42% of the overall number. In total there were only 11 transactions over 50,000 sq ft compared with 43 during 2019.

9. At the end of calendar 2020 supply across Central London stood at 17.5m sq ft, which equates to a vacancy rate of 7% (7.6% in the City and 6.2% in the West End). This is up on the long-term average for Central London of 5.7%, and up on the end of 2019, where the vacancy rate was at 4.8%. However, it is important to note that these levels of vacancy are very low compared to previous recessionary periods in the London office market. For example, during the GFC the City vacancy rate peaked at 10.4% and the West End at 6.7%. In the DotCom crisis of the early 2000s the vacancy rate went even higher, peaking at 15.5% in the City of London and 7.9% in the West End. The fact that the London office market went into this crisis with a low level of vacancy and a restrained development pipeline will be a major factor that will insulate it from significant rental falls, particularly for prime stock. Currently occupiers looking at existing options for over 100,000 sq ft of Grade A standard are limited to around 15 options across Central London, so we are likely to see more larger occupiers continuing to explore pre-letting options.

10. In the investment market, 2020 started strongly, with turnover reaching £2.4bn. However, with lockdown coming into place at the end of the March, the April – June quarter was blighted by the pandemic which caused the market to pause. In total central London turnover for the first six months of 2020 was £2.99 billion, which is 42% down on this point last year, 59% down on the 10-year average for H1 investment volumes, and the lowest H1 since 2009. During the July – September quarter we saw double the turnover we had seen during the period earlier, with turnover reaching £1.3bn, across 24 transactions. This brought calendar year-to-date investment turnover to £4.36bn, across 105 transactions, down 61% on the long-term average turnover volume for a January – September period. During October – December, in a sign of continued liquidity and sustained investor

appetite for core, well located assets, quarterly turnover reached £5.7bn. This was the highest volume for the quarter since 2015's £6.0bn. We also saw a return of international investors during the second half of calendar 2020 with overseas investors accounted for 78% of the overall volume.

11. Savills' Prime City yield is 4.0% (more or less the same as pre-covid) which compares with the West End prime yield of 3.5% (which is a decrease of some 25bps from 2019). Prime rents in the City are circa £80psf. In the West End the prime rent has remained stable at £115psf although rent-free periods have moved out to 24 months on a 10-year term. The typical rent-free period on offer has increased slightly over the course of 2020, and we estimate that in the City of London this has lengthened from 23 months on a 10-year lease to 25 to 27 months. In the West End the typical rent-free period has lengthened from 20 to 24 months.

Quarter 3 2020/21 update
Coronavirus

12. 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.

13. 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
    B. KPI. 12 – Minimise arrears
    C. KPI. 13 – Minimise voids

14. The department continues to track an additional performance measure whilst the coronavirus situation continues. This indicator relates to the productivity of our project sites, taking into consideration compliance with site operating procedures for Covid-19.

    Results for the quarter were: October – 95%, November – 91% and December – 91%. This is slightly above the returns in the previous quarter which averaged 90%.

15. Members will note the inclusion of the thematic Covid-19 risk register as part of your regular Risk Report (CS 072/21). This includes specific risks relating to the impact on our investment property returns and site productivity.

Performance

16. 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 3.

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

17. Of the seventeen KPIs being monitored, all KPIs have been affected by the impact of Covid-19.

18. The amber indicators were the following:

    A. KPI. 1 – Asset realisation and additional income (CAsC)

       Covid-19 continues to have an impact on our ability to secure additional rental income from existing lease events and new lettings. Unless trading and business activity for tenants returns to pre-pandemic levels soon, there is considerable risk that the target of £1.5m per annum additional income will not be secured in-year.

    B. KPI. 3 – Space utilisation (CAsC)

       This measure target set reducing the spend per Guildhall FTE by 5% from the 2019/20 figure. Fewer workers at Guildhall has been offset by an increased focus on safety and ensuring a Covid-secure environment for employees. The increased home working arrangements has accelerated the New Ways of Working programme and performance will be more accurately gauged in 2021/22.

    C. KPI. 5 – Adherence to Budgetary Spend Profiles (PIB and CAsC)

       There have been some project delays resulting from Covid-19 restrictions, both on Capital Projects and on the Cyclical Works Programme, that have pushed this indicator below the profiled spend target as at the end of quarter 3. As these projects have come on stream, we have seen increased amounts of committed spend. It is expected that as these projects are delivered in quarter 4 the spend profile will move towards target.

    D. KPI. 16 – Delivery of strategic utility infrastructure (PIB and CAsC)

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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.

The wireless telecommunications concession contractor has been progressing discussions with the infrastructure provider to deploy new smart poles, and a pilot scheme is being explored. A report is being finalised for the 9 March meeting of Planning and Transportation Committee.

E. KPI. 17 – Supporting the retention and inward investment of business (PIB and CAsC)

This measure is looking to progress the Cheapside Business Alliance and the Aldgate Partnership. A communications working group has been established, and the website is in the process of development. The overall slowdown in activity in the City has slightly delayed the delivery of project milestones.

Strategic implications

19. The work of the department supports the delivery of the organisation's Corporate Plan. The impact of Covid-19 has continued to affect our ability to generate income on behalf of the organisation. The department will continue to work hard to minimise the negative impacts of this issue.

Conclusion

20. This report provides an update at quarter 3 (October to December) against the department's Business Plan.

Appendices

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

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