

Property Group Update

Quarter 2: July – September
2013

Report from: Senior Property Officer

Introduction and Background

This report builds upon the information provided in the Quarter 1 update providing a general update on key Property Group business issues for the second quarter of the financial year 2013/14. The intention here is not to provide in depth updates on all ongoing individual property cases but rather to provide a general overview of Property Group's progress in the areas identified below along with summaries of other important issues relevant at the time of writing.

1. Corporate Non-Housing Property Portfolio 1st Year Delivery Plan
2. Capital Receipts (for further details see Appendix A)
3. Joint Property Review
4. Performance of Commercial Buildings
5. Other issues
 - i. Lancashire Regeneration Partnership
 - ii. Morecambe Property Holdings
 - iii. Bailrigg Science Park

As these first two quarterly updates have now set the scene, in a bid to prevent repetition in future reports it is proposed that from Quarter 3 onwards these reports will be condensed to highlight any key changes and emerging property issues.

1. Corporate Non-Housing Property Portfolio 1st Year Delivery Plan

As detailed in the Quarter 1 update, it has been necessary for the Property Group to spend a significant amount of time assessing, quantifying and programming individual projects. This programming work provides firmer costs facilitating more accurate financial forecasting and monitoring. As indicated in earlier reports flexibility is required throughout the delivery programme because the initial unobtrusive condition survey costs were indicative and therefore the levels of work required at each property could increase or decrease as detailed surveys and specification work progresses. Furthermore, the need for specialist surveys and design works may become apparent leading to additional cost implications.

The projects included in the 1st year delivery programme fall into the three procurement groups, Minor Works (MW), Intermediate Works (IW) and Projects (P). In the main, the projects being undertaken within the 1st year delivery programme are the schemes identified in the condition surveys as the most urgent although some projects have been brought forward for economic reasons. For example, where two individual projects require scaffolding at a particular building then it makes financial sense to undertake both at the same time.

Property Group has been allocated £2.402M within financial year 2013/14 to undertake the 1st year delivery programme (this excludes slippage from 2012/13). The intention is to manage the programme of work within this sum by reallocating funding between the projects as variations to the indicative budgets become clear. Officers will report any necessary changes retrospectively through future quarterly updates.

The following tables provide a summary of progress to date. The nature of scheduled works is as set out in the report to Cabinet back in April, unless indicated otherwise:

Table 1 – Minor Works Project Progress

Property/Project	Total Indicative Works 1 st Year	Brought Forward Indicative Works 2 nd Year	Total Approved Tender (AMP)
Minor Works (MW) 14 Buildings (Start date 30 th September 2013 – Project Duration 10 Weeks)	£49k	£49k	£103k

In total, 14 of the Minor works (MW) projects have been finalised. The Agreed Maximum Price (AMP) approved with the contractor includes repairs brought forward from the 2nd year programme for the economic reasons described earlier in this report.

Work has commenced on site for some minor works projects including Bolton le Sands toilets, Morecambe promenade shelters, the King Street covered yard and some preparation work at Williamson Park.

Table 2 – Intermediate Works (IW) Project Progress

Property/Project	Submit Design /tender	Approve Tender (AMP)	Total Indicative Works 1 st Year	Total Approved Tender (AMP)	Proposed Start Date
Intermediate Works (IW): programmed works are at various stages: <u>Partnering Contractor</u>					
White Lund Depot Work Package	18/10/13	01/11/13	£231k	TBA	05/11/13
Lancaster Cemetery Chapels	11/10/13	14/10/13	£80k	TBA	28/10/13
Lancaster Town Hall Railings	23/09/13	30/09/13	£50k	£47k	02/10/13
Lancaster Town Hall Paving	23/09/13	30/09/13	£30k	£28k	07/10/13
Morecambe Town Hall	08/11/13	21/11/13	£53k	TBA	TBA
The Dukes Playhouse	08/11/13	21/11/13	£39k	TBA	06/12/13
Palatine Recreation Ground	21/10/13	04/11/13	£26k	TBA	TBA
Totals			£499k	£75k	

*TBA – to be advised or confirmed, subject to further information becoming available.

Work has already commenced on the memorial garden railings and paving projects at Lancaster Town Hall to meet conservation requirements, with a view to completing by Remembrance Day. The removal of the vegetation to the side elevation has revealed root damage to the low retaining wall, which will require rectification at additional cost prior to replacement of the refurbished railings.

Table 3 – Projects (P) Project Progress

Property/Project	Submit Design /Tender	Approve Tender (AMP)	Total Indicative Works 1 st Year	Total Approved Tender (AMP)	Proposed Start Date
Programmed Projects (P) are at various stages:					
<u>Partnering Contractor</u>					
Williamson Park buildings	04/10/13	18/10/13	£473k		15/11/13
Assembly Rooms	04/10/13	28/10/13	£158k		10/11/13
The Storey	11/10/13	10/11/13	£233k		22/11/13
The Platform	04/10/13	18/10/13	£318k		10/11/13
Ryelands Park buildings	11/10/13	10/11/13	£45k		22/11/13
City Museum	25/10/13	08/11/13	£258k		22/11/13
Maritime Museum	25/10/13	08/11/13	£253k		22/11/13
26 St Georges Quay	25/10/13	10/11/13	£38k		22/11/13
Salt Ayre Sports Centre	25/10/13	10/11/13	£21k		22/11/13
<u>Consultant Projects</u>					
Mitre House Car-park	05/06/13	08/08/13	£60k	£82k	30/09/13
			£1.857m	£82k	

Position Overall

Currently, indicative programmes and spend profiles suggest expected spend in this financial year will be circa £1.977m, plus fees of circa £150k equating to £2.127m. Therefore, at this stage potential slippage against the approved £2.402M is estimated to be in the region of £275k.

It should be noted that as yet no provision has been made for the following additional projects raised in the Property Group Quarter 1 Update report:

- Lancaster Town Hall Banqueting Suite ceilings – A conservation & structural survey was completed in September 2013 and the full extent of the deterioration is currently being quantified and estimated. Progress on this project will be reported once full details are known.
- Storey Institute Garden Walls – Again this project is currently being quantified and estimates and progress will be reported once full details are known.

As at the 30th September 2013 it is anticipated that the Minor Works projects can be funded from the current 2013/14 Revenue Budget and therefore there is no related call against the Municipal Buildings Reserve to date.

2. Capital Receipts

Capital receipts totalling £9.443M are budgeted in the current year.

Against this, the capital receipts received to date are still only as follows:

- £21K for the Oxford Street garage, received in May.

Additional exempt information on the progress of capital receipts that are budgeted for during 2013/14 can be found at **Annex A**.

3. Joint Property Review (for Lancashire County and Lancaster City Councils)

The majority of the property related information and data for the joint property review has now been gathered and work has begun working up a series of options based upon this data. As the data compilation exercise has progressed, a number of priority areas have been identified within the portfolios of both authorities. Some of these priority areas are solely for consideration by the authority currently occupying the building in question, whilst others will require a joint approach by both authorities. From a City Council Officer perspective the priority areas for which options are currently being developed for further exploration and consideration include:

- Cable Street
- St. Leonard's House
- Palatine Hall
- White Lund Depot
- Lancaster Town Hall
- Morecambe Town Hall
- The Platform

It is anticipated that more detailed information about various options being worked up will be available for the next quarterly update, and to feed into the budget process.

The work identified in the 1st Year Delivery Programme is being continually monitored against the progress being made with the joint property review to ensure that so far as reasonably possible no unnecessary work is undertaken. However, in some cases it will be necessary to make a judgement and assess the urgency of any works against the likelihood and timescale of the possible vacation of a building, as well as the potential impact on property values.

4. Performance of Commercial Buildings

Measures are being taken to improve management information and associated systems regarding property. Progress will shape the format and content of future reporting.

The following table summarises the current position of the City Council's commercial property relating to the General Fund and the Housing Revenue Account (HRA) with regards to occupation, lease obligations, income and running costs as well as the total required repair and maintenance identified in the condition surveys undertaken in 2012, as discussed earlier.

Please note that as you would expect after only 3 months, the table has not substantially changed since Quarter 1 but any the minor adjustments have been included in the table and have been described in the subsequent text.

Property Name	Occupation by Floor Area			Lease (e.g. Full / Internal Repair)	Income		Running Costs (£ p.a.)	Annual Balance (£ p.a.)	Condition Survey (5 Year Total £)
	Total (m2)	Let (m2)	Vacant (m2)		Rent (£ p.a.)	Service Charge (£ p.a.)			
Cottage Museum	64	64	0	Compliance works only by tenant	0.00	0.00	0.00	0.00	44,194.00
5 Cheapside	243	0	243	Vacant	0.00	0.00	0.00	0.00	0.00
7 Cheapside	259	259	0	Full	-45,000.00	-800.00	500.00	-45,300.00	0.00
9 Cheapside	111	111	0	Full	-48,900.00	-400.00	200.00	-49,100.00	0.00
CityLab, 4-6 Dalton Square	1,307	692	615	Internal	-66,300.00	-37,700.00	144,500.00	40,500.00	170,672.00
Bus Station Kiosk, Lancaster	24	24	0	Internal					
Stagecoach Office, Lancaster	180	180	0	Internal	-19,100.00	-120,000.00	145,600.00	6,500.00	25,990.00
County Information Centre, Lancaster	70	70	0	Internal					
Edward Street Dance Studio	159	0	159	Vacant	0.00	0.00	0.00	0.00	111,746.00
Alfred Street Workshop 7	44	44	0	Full					
Alfred Street Workshop 8	44	44	0	Internal	-10,800.00	-200.00	3,000.00	-8,000.00	4,700.00
Alfred Street Workshop 9	44	44	0	Full					
1 King Street	77	77	0	Internal	-10,800.00	-400.00	100.00	-11,100.00	894.00
3 King Street	55	55	0	Internal	-9,000.00	-400.00	100.00	-9,300.00	5,766.00
5 King Street	21	21	0	Internal	-11,000.00	-200.00	2,300.00	-8,900.00	2,012.00
5A King Street	64	64	0	Internal					
5B King Street	24	24	0	Internal	-6,500.00	-300.00	0.00	-6,800.00	0.00
9B King Street 9B & Covered Yard	109	109	0	Internal	-10,500.00	-600.00	700.00	-10,400.00	10,008.00
Assembly Rooms, King St. - Ludus	245	245	0	Internal (Rent Grant)	-13,000.00	-400.00	10,500.00	-2,900.00	241,652.00
87 King Street	212	212	0	Internal	-10,400.00	-500.00	1,100.00	-9,800.00	6,950.00
City Museum	1,075	1,075	0	Compliance works only by tenant	0.00	0.00	0.00	0.00	968,342.00
Storey Institute	1,439	894	545	Internal	-53,400.00	-51,600.00	189,300.00	84,300.00	517,362.00
26 Castle Park (formerly part of Storey)	234	234	0	Internal	-7,500.00	-500.00	7,600.00	-400.00	12,790.00
67-71 Market Street	308	308	0	Internal	-35,300.00	-1,500.00	1,400.00	-35,400.00	4,611.00
Moor Lane Mills	3,112	3,112	0	Full	-230,000.00	-14,300.00	13,000.00	-231,300.00	0.00
Dukes Playhouse	1,198	1,198	0	Internal (Rent Grant)	-12,500.00	-3,400.00	10,600.00	-5,300.00	93,704.00
Moor Lane Methodist Church	267	267	0	Full (Rent Grant)	-8,000.00	-200.00	200.00	-8,000.00	0.00
4 Queen Street	319	319	0	Internal	-200.00	0.00	2,500.00	2,300.00	25,344.00
Ryelands House	258	258	0	Internal	-22,700.00	-45,000.00	69,300.00	1,600.00	61,016.00
Old Mans Rest, Ryelands House	230	125	105	Internal	-13,500.00	-2,700.00	6,500.00	-9,700.00	188,002.00
26 St. Georges Quay	1,492	1,492	0	Internal	-38,500.00	-6,200.00	7,200.00	-37,500.00	37,995.00
Maritime Museum	768	768	0	Compliance works only by tenant	0.00	0.00	0.00	0.00	318,743.00
St. Leonard's House	3,164	1,260	1,904	Internal	-56,800.00	0.00	147,900.00	91,100.00	2,023,007.00
Skerton Community Centre	186	186	0	Full	-1,400.00	-50.00	0.00	-1,450.00	0.00
Stone Barn/Scout Hut King George V	107	107	0	Full except roof	-700.00	-50.00	0.00	-750.00	13,420.00
Depot Adjacent 46 Hala Road	28	28	0	Full	-1,050.00	-50.00	0.00	-1,100.00	0.00
56-58 Euston Road	253	0	253	Vacant	0.00	0.00	3,600.00	3,600.00	0.00
60 Euston Road	74	74	0	Full (but with initial works to be carried out by LCC)	-8,000.00	0.00	0.00	-8,000.00	28,612.00
Happy Mount Park Café	374	374	0	Full	-19,200.00	-800.00	0.00	-20,000.00	0.00
Clock Tower Café	174	174	0	Full	-3,800.00	-400.00	0.00	-4,200.00	0.00
Stone Jetty Café	87	87	0	Internal	-7,600.00	-800.00	2,100.00	-6,300.00	42,022.00
Regent Park Café	74	0	74	Vacant	0.00	0.00	0.00	0.00	5,762.00
West End Gardens Café	139	139	0	Internal	-5,300.00	-300.00	0.00	-5,600.00	7,004.00
Yacht Lookout Tower	20	20	0	Internal	-400.00	-100.00	0.00	-500.00	3,770.00
Palatine Hall	1,401	1,401	0	Internal	-90,500.00	-12,200.00	12,400.00	-90,300.00	28,408.00
Lodge Street Musicians Co-op	660	660	0	Caretaking agreement	-200.00	0.00	500.00	300.00	0.00
57 Highfield Road	81	81	0	Internal	-4,250	-50	0.00	-4,300	Council Housing
63 Highfield Road	66	66	0	Internal	-3,600.00	-50.00	0.00	-3,650.00	Council Housing
3 Langdale Place	99	99	0	Internal	-5,100.00	-50.00	0.00	-5,150.00	Council Housing
10 Lentworth House	34	34	0	Internal	-2,500.00	-50.00	0.00	-2,550.00	Council Housing
11 Lentworth House	32	32	0	Internal	-3,000.00	-50.00	0.00	-3,050.00	Council Housing
14 Lentworth House	29	29	0	Internal	-3,150.00	-50.00	0.00	-3,200.00	Council Housing
3 Owen Road	55	55	0	Internal	-3,800.00	-50.00	0.00	-3,850.00	Council Housing
5 Owen Road	60	60	0	Internal					
7 Owen Road	39	39	0	Internal	-8,500.00	-85.00	0.00	-8,585.00	Council Housing
9 Owen Road	41	41	0	Internal					
11 Owen Road	40	40	0	Internal	-8,200.00	-85.00	0.00	-8,285.00	Council Housing
4-6 Ridge Square	111	111	0	Internal	0.00	0.00	0.00	0.00	Council Housing
8 Ridge Square	64	0	64	Vacant	-3,000.00	-50.00	0.00	-3,050.00	Council Housing
10 Ridge Square	52	52	0	Internal	-2,900.00	-50.00	0.00	-2,950.00	Council Housing
12/14 Ridge Square	111	111	0	Internal	-5,900.00	-80.00	0.00	-5,980.00	Council Housing
Totals	21,711	17,749	3,962		-931,750.00	-302,750.00	782,700.00	-451,800.00	5,004,498.00
						-1,234,500.00			
By Percentage	100%	82%	18%		100%		63%	37%	

Changes from Quarter 1 include the removal of the assembly rooms ground floor, which operates as a market and is therefore not strictly speaking a commercial property under the management of Property Group. For further information, 'Ludus Dance' who are situated on the first floor of the assembly rooms and 'The Dukes Playhouse' which also includes Moor Lane Methodist Church have been identified as receiving rent grants from the City Council in the lease column.

Occupation

The current occupation across the City Council's total commercial property portfolio is still 82% (slightly better than Qtr 1; but rounds the same). The remaining 18% of vacant space now amounts to the equivalent of 3862m², the majority of which is attributable to:

- The Storey, which returned to City Council control in October 2012, has a vacant floor area of 545m². This would appear to be an increase from the 504m² reported in the Quarter 1 report but this is actually a result of some necessary adjustments being made to the overall floor areas to ensure that all of the common areas are accounted for.
- St. Leonard's House currently has 1904m² of vacant space (unchanged since Quarter 1) but as reported previously, the building requires considerable investment. Officers have recently received the 'Stage 1' report regarding viable alternative uses undertaken by the County Council's regeneration partner Carillion, the results of which will be submitted for consideration by Members in due course.
- The vacancy rate at Citylab is currently running at 47% (or 615m²). This represents a 3% improvement over the 50% vacancy rate reported in the quarter 1 update. The letting of No.4 is expected to go through shortly which will give a further boost to the vacancy rate in quarter 3.

Despite some small improvements at both the Storey and Citylab these three buildings still account for 77% of the vacant commercial portfolio. As mentioned above, recent developments at St. Leonard's House are encouraging and further options are being explored as part of the joint property review. The remaining 23% is made up of a small number of buildings that are currently between lets or to be sold. In general terms, while Property Group will continue in its efforts to minimise vacancy rates, it should be remembered that supply is currently outstripping demand in the commercial office rental market.

Lease Obligations

The column headed 'Lease' identifies the tenant obligations for repair and maintenance of the buildings under the lease. The majority are internal repairing leases, where the City Council retains responsibility for the external envelope of the building and the tenant accepts responsibility for the interior. The remainder are mainly full repairing leases where the tenant accepts responsibility for both the interior and exterior of the building.

Income and Running Costs

The table shows the current income due from each building, broken down between the rental income and service charge.

The running costs shown include the costs the City Council incurs through ownership of the buildings including gas, water, electricity, staff, etc, some of which are recharged to the tenant through the service charge depending on the terms of the lease. These running costs do not include management costs, i.e. the officer time incurred by Property group in managing the buildings, nor do they include any financing costs in relation to the original acquisition or later capital investment.

As a very simple measure therefore, the current figures indicate a starting surplus of £451,800 in cash terms, which is equivalent to 37% of total income due.

Condition Survey

This final column provides information taken from the condition surveys undertaken during 2012. These figures show the total required maintenance over the next 5 years for each building. These figures include both internal and external repairs and therefore responsibility for the £5m total is shared between the city council and the tenants. The condition for a building with a full repairing lease has been shown as nil but for internal repairing leases the condition requirement would need to be broken down between internal and external repairs. Therefore this column should only be used as an indication of the overall condition of the building.

5. Other Issues

i. Lancashire Regeneration Partnership

Lancashire County Council has entered into an agreement with a private sector provider to form a Regeneration Property Partnership. The partnership has been procured in such a way that it allows for other public sector bodies including Lancaster City Council, who were named in the OJEU documentation, to benefit from these services.

The Lancashire Regeneration Partnership is a 10 year agreement. The successful partner for the north of the county was Carillion. Carillion are a multi-national company and have a strong Northwest/Lancashire presence with approximately £12m gross value added from Carillion employees living in the region, supported by some 42 work locations

The main objectives for the regeneration property partnership are to:

- Use public sector assets as a lever for delivering sustainable regeneration;
- Support the pursuit of wider objectives by identifying and helping to deliver the best possible solutions for surplus properties balancing financial, economic and social returns;
- Ensure identification of surplus sites that are developed for the most appropriate use to meet key objectives;
- Attract investment and jobs promoting economic development in the area.

It is anticipated that the regeneration property partnerships will bring the following benefits:

- The partners will share the risks of achieving the above objectives;
- The partners will bring both capability and capacity in key areas in terms of resources to deliver the objectives;
- The partnership will provide a legal and commercial vehicle to the County's public sector partners without the need to undertake a separate procurement process;
- The partnership will bring new ways of working, thinking and innovative models for the delivery of the objectives.
- The partners will work together to unlock the economic regeneration potential of the public sector assets and support ongoing property reviews.
- The regeneration partnership will work up and deliver development proposals for identified sites/properties

The regeneration partner will:

- Work with the councils to develop a strategy for the development and/or disposal of a particular property or groups of properties. These may involve both operational and investment properties;
- Act as a single point of contact for the procurement and delivery of a project;
- Integrate and manage a diverse range of supply chain sub-contractors

The partner will recover its costs and earn returns through the projects that it successfully delivers thus being incentivised to work up proposals that result in successful projects consistent with the aims/requirements of the councils.

ii. Morecambe Property Holdings

Earlier this year, the City Council was approached by a developer interested in working together to provide a new store in Morecambe for a high profile retailer. Various sites and delivery models were considered. Unfortunately, however, before the proposals could be reported, they were withdrawn.

On a more positive note, Planning and Regeneration along with Property Group are now in discussions with Carillion, Lancashire County Council's regeneration partner regarding a possible master planning exercise in the area. It is hoped that a master planning exercise will result in a more cohesive approach being taken in this vicinity of Morecambe and will reinvigorate interest from the likes of the high profile retailer referred to above. It should therefore give a better context within which the Council may consider its own land and property holdings. A report is being prepared for December Cabinet.

iii. Bailrigg Science Park

In 2009 the City Council utilised funding from the former North West Regional Development Agency (NWDA) to purchase nearly 10ha of land between Bailrigg Lane and Lancaster University to build the Lancaster Science Park. The land purchase was subject to a funding agreement with the NWDA and a number of covenants in favour of the previous landowner (Bailrigg Farm Trust). Due to various factors including the recession and abolition of the NWDA, the site has yet to be developed. However, the land has the benefit of planning permission for the Science Park and Lancaster University is now taking the lead role (in partnership with the city and county councils) to develop and deliver a viable form of development. This may involve transferring ownership of the site to the University.

The above proposal has created an opportunity for the City Council to work with the Bailrigg Farm Trust on a potential joint disposal of land adjacent to the proposed science park. Property Group is currently working with the Bailrigg Farm Trust's consultant on a draft memorandum of understanding, for consideration by Cabinet in due course.