

Property Group Update

Quarter 1: April – June 2013

Report from: Senior Property Officer

Introduction and Background

This report provides a general update on key Property Group business issues for the first 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 following areas:

1. Corporate Non-Housing Property Portfolio 1st Year Delivery Plan
2. Capital Receipts
3. Joint Property Review
4. Performance of Commercial Buildings

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

As a direct result of the comprehensive condition survey work undertaken during the latter part of 2012, a significant amount of required improvement and maintenance work was identified across the Council's corporate non-housing building portfolio. This required maintenance work has been prioritised and developed into a 5-year capital programme. The budget approved by Council of £10.637M makes up the 5-year capital programme, of which £2.402M has been assigned to the current financial year. The ultimate goal for this investment is to shift the Council from its current emphasis on reactive maintenance to a more strategic planned maintenance ethos which will deliver significant potential savings and improve financial planning in the years to come.

The projects will be delivered and managed through the property shared service collaboration arrangements in place between Lancaster City Council (The City Council) and Lancashire County Council (The County Council).

During the first quarter it has been necessary to spend a significant amount of time assessing, quantifying and programming the various individual projects in order to firm up project costs and identify where further specialist surveys and design works may be needed. This work has fed into the formulation of a preliminary first year delivery programme produced in conjunction with the County Council's Building Design Unit. Although previously reported, it is worthy of note that budget flexibility between individual projects is essential because the costs taken from the condition survey data to build up the £10.637M budget are purely indicative having been estimated based upon non-obtrusive surveys. As such, the levels of work required at each property could increase or decrease as detailed specification work for the procurement process progresses.

To date, 95% of sites identified within the 1st year delivery plan for 2013/14 have been surveyed to review the estimate and quantify the condition information. As this work is completed the information is fed into the working procurement/delivery programme to identify when each building will be worked on throughout the year. To date the following additional works have been identified following the specialist surveys carried out as a result of recommendations made during the non-obtrusive condition survey phase.

- Lancaster Town Hall Banqueting Suite ceilings – Following inspection of the barrelled ceilings significant deterioration was discovered. A conservation & structural survey has been commissioned to establish the full extent of the deterioration and to specify, quantify and estimate the remedial works. Progress on this project will be reported once full details are known.
- Storey Institute Garden Walls - As advised in the condition survey a structural survey was carried out by R G Parkins (local structural surveyors) who identified the significant deterioration of the garden walls. As part of the 1st Year delivery plan work is being

undertaken to quantify and estimate the extent of the deterioration. Again progress on this project will be reported once full details are known.

Procurement of the projects will fall into the following procurement groups:

- Minor Works (MW): These will be for projects up to £5K in value, there are 22 sites in this group estimated value £45K, 6 sites are Grade 2 listed and 16 of the sites have currently been assessed. Under the County Council's Partnering Framework Agreement, Garside and Laycock have been asked to produce Agreed Maximum Prices (AMP) and a programme of works. Any risks in terms of conservation will be co-ordinated for discussion with the Conservation Officer and English Heritage.
- Intermediate Works (IW): These projects will range from £5K to £49K in value, there bring 27 sites in this group of which 4 have a grade 2 or 2* listing and 19 have been visited so far. The total estimated value of this work is £498K. Collectively, it was considered by the Project Board that this work is sensitive in nature for conservation reasons and it should prove beneficial to utilise some experienced local contractors. Again using the County Council's Partnering Framework Agreement, Bramall Construction is to be appointed as the principal general partnering contractor and will pursue the option of utilising some local contractors in their supply chain.
- Projects (P): These are the more 'sensitive/large' projects which have been grouped appropriately and are likely to have more complex conservation issues. Groupings range from £50K to £750K in value, affect 18 sites and all have been visited. Bramall Construction are to be appointed as the principal general partnering contractor for these works also, and again the option of utilising some local contractors in their supply chain is to be pursued.

Based on the indicative programmes currently available, current projections indicate likely works spend by 31st March 2014 of circa £2.077M, plus fees at circa £150K, giving an indicative total of £2.227M. This would indicate an under-spend of circa £184K which may need to slip forward into 2014/15.

As at 30 June, all figures are still indicative and therefore no formal update to the Year 1 delivery plan is presented. Furthermore, no use of the Municipal Buildings Reserve programme has been budgeted. No spending has registered as yet against the Plan, in fact, payments are yet to be made in relation to work done in the previous year.

2. Capital Receipts

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

Against this, the capital receipts received during the last quarter are as follows:

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

The following receipts are budgeted for during 2013/14 but none have been received as yet:

- Land at south Lancaster: Agreement of detailed legal documentation still underway (by external parties, in connection with planning issues regarding the adjoining site). It is expected that this will be completed soon, and then the sale will progress.
- 12-14 Wellington Terrace, Morecambe: Heads of terms agreed at Cabinet 28 May 2013 (minute 10).
- 56-60 Euston Rd, Morecambe: Not yet considered / reported to Cabinet.
- Land at Quernmore Rd & Willow Grove, Lancaster: Cabinet 04 September 2013 (minute 50). Heads of terms for the sale agreed at the end of June 2013, under delegated authority.
- Heysham Mossgate: Heads of terms agreed at Cabinet 28 May 2013 (minute 11).
- Housing Grant/Loan Repayments and other miscellaneous receipts.

Detailed information on the above is exempt from publication, by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972.

The outcome of the proposed sales will result in some adjustment to the financing of the Capital Programme. This will be updated in Quarter 2. Information on any other key land or property disposals or plans will also be included then.

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

The joint property review is approaching the end of the data collection phase. The next stage will be to work up a number of options based on 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 perspective, the areas (in no particular order) include:

- Cable Street Offices
- St. Leonard's House
- Palatine Hall
- White Lund Depot
- Lancaster and Morecambe Town Halls – to improve occupancy / utilisation rates

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 call by assessing the urgency of the repair works against the likelihood and timescale of the possible vacation of a building.

It is anticipated that additional information about the options being investigated will be available for the next quarterly update.

4. Performance of Commercial Buildings

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.

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

Occupation

The current occupation across the City Council's total commercial property portfolio is 82%. The remaining 18% of vacant space amounts to the equivalent of 3961m², the majority of which is attributable to:

- The Storey, which returned to City Council control in October 2012. It has a vacant floor area of 504m², which has reduced from 652m² since the last time this exercise was undertaken early in 2013.
- St. Leonard's House currently has 1904m² of vacant space but as reported previously, the building requires considerable investment. Options are currently being explored with the County Council's regeneration partner Carillion, around alternative viable uses, for consideration by Members in due course.
- The vacancy rate at Citylab (4/5 Dalton Square) is currently running at 50% (or 649m²) which can largely be attributed to the lack of demand for office space in the current financial climate. However, there is interest in the ground floor accommodation and in "No. 4", which means that these figures could look much improved by the next quarterly update.

These three buildings account for 77% of the vacant commercial portfolio and as mentioned earlier, further options to address this will be explored during the joint property review. The remaining 23% is made up of 7 buildings that are currently between lets or to be sold.

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 £464,600 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.

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	658	649	Internal	-66,300.00	-37,700.00	144,500.00	40,500.00	170,672.00
Bus Station Kiosk, Lancaster	24	24	0	Internal	-19,100.00	-120,000.00	145,600.00	6,500.00	25,990.00
Stagecoach Office, Lancaster	180	180	0	Internal					
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	-10,800.00	-200.00	3,000.00	-8,000.00	4,700.00
Alfred Street Workshop 8	44	44	0	Internal					
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. - Market	157	151	6	Internal	-23,600.00	0.00	10,800.00	-12,800.00	241,652.00
Assembly Rooms, King St. - Ludus	245	245	0	Internal	-13,000.00	-400.00	10,500.00	-2,900.00	
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	1,554	1050	504	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	-12,500.00	-3,400.00	10,600.00	-5,300.00	93,704.00
Moor Lane Methodist Church	267	267	0	Full	-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	Internal	-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	-8,500.00	-85.00	0.00	-8,585.00	Council Housing
7 Owen Road	39	39	0	Internal					
9 Owen Road	41	41	0	Internal	-8,200.00	-85.00	0.00	-8,285.00	Council Housing
11 Owen Road	40	40	0	Internal					
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	21,983	18,022	3,961		-955,350.00	-302,750.00	793,500.00	-464,600.00	5,004,498.00
					-1,258,100.00				
By Percentage	100%	82%	18%		100%		63%	37%	