

Appendix B

Property Group Update

Quarter Ended 30 September 2016

Report: of Chief Officer (Resources & s151 Officer)

Senior Property Officer

1.0 Introduction and Background

This Quarter 2 report is intended to provide an update on previously reported projects and initiatives and to highlight any significant emerging property related issues. It is not intended to provide in depth updates on all ongoing individual property cases.

2.0 Capital Investment Programme – General Fund Corporate Properties

Attached at **Annex A** is a schedule of the corporate property capital works currently underway or planned for 2016/17. It shows the progress being made and a brief summary of the works being undertaken. In the main future years' programmes are still based on the condition surveys undertaken back in 2012, or pending further investigation, or subject to the outcome of other studies such as Museums. As the original condition surveys are now 4 years old, new surveys are now planned for 2017 in order to have a more up to date overview of the condition of all buildings, to help identify any changes needed in capital works programming. The outcome of the condition surveys will be reported through to Members, to inform future budget and property related decisions.

2.1 Planned Maintenance Implications

All buildings are being allocated a planned maintenance programme in order to inform what repair and maintenance (R&M) commitments are needed over the coming years, in turn to inform budget planning. The timeframes for the planned programme are being based on the capital works complete so far. For example, the Lancaster City Museum is being re-roofed in 2016/17; therefore, on the planned maintenance programme it will require the ridges, verges and flashings re-pointed in 5 years (2021/22).

3.0 Asset Disposals: Capital Receipts

The original estimate for capital receipts in 2016/17 was £370K. This this is now anticipated to increase to £1.219M following further potential asset sales (St.Leonard's House and land at Central Drive, Morecambe). In line with Medium Term Financial Strategy (MTFS) provisions, the increase will be applied to reduce the underlying need to borrow to fund the capital programme by almost £850K, and therefore reduce the subsequent annual financing costs to the revenue budget. Much of the background information on capital receipts is still exempt, but more details will be provided through the budget process, which will also cover future years' expectations. More specific information on any disposals is included below.

3.1 St. Leonard's House

On 29 March Cabinet approved to the disposal of St. Leonard's House through an exclusivity agreement and other heads of terms in support of the economic wellbeing of the area, with progress to be reported through these quarterly monitoring reports.

Since then, the Council has entered into the exclusivity agreement, to facilitate the developer undertaking additional surveys as part of their due diligence. This is to ensure that the building can be converted into student accommodation and that sufficient warranty can be provided on the existing structure following the construction works. Whilst the additional survey results have revealed some further structural issues, the additional information has given the developer some comfort that their scheme remains financially viable.

The Council has now entered the next stage of the disposal process, this being the

conditional purchase contract which in essence is conditional upon:

- Satisfactory title.
- The granting of planning and listed building consent, both being free from onerous conditions.
- The expiry of the Judicial Review Period.

Subject to these conditions being satisfied, the freehold interest in the building will transfer and construction work will then start on site within 9 months.

4.0 Performance of Commercial Buildings (Occupancy)

The following table provides a list of all commercial buildings showing the total area, the lettable area and how much is vacant, following a request from Budget and Performance Panel:

Property Name	Occupation by Floor Area			%age Let
	Total	Let	Vacant	
	(m2)	(m2)	(m2)	
General Fund				
Cottage Museum	64	64	0	100%
5 Cheapside	243	0	243	0%
7 Cheapside	259	259	0	100%
9 Cheapside	111	111	0	100%
CityLab, 4-6 Dalton Square	1,179	999	180	85%
Bus Station Kiosk, Lancaster	24	24	0	100%
Stagecoach Office, Lancaster	180	180	0	100%
Police Contact Centre, Lancaster	70	70	0	100%
Edward Street Dance Studio	159	0	159	0%
Alfred Street Workshop 7	44	44	0	100%
Alfred Street Workshop 8	44	44	0	100%
Alfred Street Workshop 9	44	44	0	100%
1 King Street	77	77	0	100%
3 King Street	55	55	0	100%
5 King Street	21	0	21	0%
5A King Street	64	0	64	0%
5B King Street	24	24	0	100%
9B King Street 9B & Covered Yard	109	109	0	100%
Assembly Rooms, King St. - Ludus	245	245	0	100%
87 King Street	212	212	0	100%
City Museum	1,075	1,075	0	100%
Storey Institute	1,552	1,478	74	95%
26 Castle Park (formerly part of Storey)	234	234	0	100%
67-71 Market Street	308	308	0	100%
Moor Lane Mills	3,112	3,112	0	100%
Dukes Playhouse	1,198	1,198	0	100%
Moor Lane Methodist Church	267	267	0	100%
4 Queen Street	319	319	0	100%
Ryelands House	258	258	0	100%

Property Name	Occupation by Floor Area			%age Let
	Total	Let	Vacant	
	(m2)	(m2)	(m2)	
Old Man's Rest, Ryelands House	230	154	76	67%
26 St. Georges Quay	1,492	1,492	0	100%
Maritime Museum	768	768	0	100%
Skerton Community Centre	186	186	0	100%
Stone Barn / Scout Hut, King George V	107	107	0	100%
56-58 Euston Road	253	253	0	100%
60 Euston Road	74	74	0	100%
Happy Mount Park Café	374	374	0	100%
Clock Tower Café	174	174	0	100%
Stone Jetty Café	87	87	0	100%
Regent Park Café	74	74	0	100%
West End Gardens Café	139	139	0	100%
Yacht Lookout Tower	20	20	0	100%
Lodge Street Musicians Co-op	660	660	0	100%
Council Housing				
57 Highfield Road	81	81	0	100%
63 Highfield Road	66	66	0	100%
3 Langdale Place	99	99	0	100%
10 Lentworth House	34	34	0	100%
11 Lentworth House	32	32	0	100%
14 Lentworth House	29	29	0	100%
3 Owen Road	55	55	0	100%
5 Owen Road	60	60	0	100%
7 Owen Road	39	39	0	100%
9 Owen Road	41	41	0	100%
11 Owen Road	40	40	0	100%
4-6 Ridge Square	111	111	0	100%
8 Ridge Square	64	64	0	100%
10 Ridge Square	52	52	0	100%
12/14 Ridge Square	111	111	0	100%
Totals By Floor Area	17,103	16,286	817	
Totals By Percentage	100%	95%	5%	

There have been some relatively minor changes in current occupation across the City Council's total commercial property portfolio since the last quarter and as a result the percentage let figure has increased from 94% to 95%, which is considered to be good performance especially given current market conditions. The remaining 5% of vacant space now amounts to the equivalent of 817m2 which is attributable to the following buildings:

1. **The Storey:** The total commercial occupation within this building is currently running at 95%. Of the remaining 5%, the first 7 units in the newly developed artist studios have been let with new interest in the remaining units. There are expressions of interest in the remaining 2 vacant offices within the building. Optimistically, there is potential for the Storey to reach 100% occupation by Christmas.
2. **Citylab:** The total commercial occupation within this building is currently running at 85%. The remaining 15% equates to a vacant floor area of 180m² that is being actively marketed, alongside considering other measures to help.
3. **Edward Street Dance Studio** – This building has remained vacant for some time due to its inclusion in the Canal Corridor Development. The building is now in a very poor state of repair and it is difficult to maintain adequate security. As a result officers are currently looking at options for demolition of the building along with its associated outbuildings.
4. **5 King Street** – This property is vacant, but expressions of interest have been received in the property.
5. **5A King Street** – This was formerly let with 5 King Street (GF Shop) as a single unit but is now to be developed into separate office accommodation.
6. **5 Cheapside** – Improvement work to the internal layout and staircase has attracted new interest in the property. The property was let subject to contract until recently but unfortunately that letting fell through. Marketing of the building continues and officers are also dealing with a new expression of interest.
7. **Old Man's Rest, Ryelands House** – The vacant space is on the first floor of the building and is being used on an informal basis by the Council's Public Realm Service and Police.

The Property Group continues to work towards reducing the vacancy rates in the commercial property portfolio although considering that supply is currently outstripping demand in the commercial office rental market, an overall 5% vacancy rate across the whole portfolio represents a relatively healthy position.

There will undoubtedly be further updates during the remainder of the year; changes are expected to have a bearing on both occupancy and future rental income. The latter will be reflected through future monitoring reports and budget updates.

5.0 Energy Usage

The Property Group has been working on formulating a regular report from current energy data held across council services. Unfortunately this has proved to be less straightforward than first thought, with inconsistencies in data making it difficult to present a clear picture. These issues include:

- Variations in monthly and quarterly invoicing between buildings, and recording of related data.
- The current gas provider (British Gas) does not collect and/or distribute the data they receive from our smart meters, resulting in estimated bills and omissions in data. NB: This is a problem that reaches much wider than Lancaster City Council's property portfolio.

The YPO (Yorkshire Purchasing Organisation), of which the Council is a member, is

in the process of changing gas provider from British Gas to Corona Energy. From April 2017 the Council will transfer to the new provider and this will help address some of the difficulties in gaining accurate and meaningful usage data. Furthermore Property Group are now proposing to standardise across council services:

- The billing frequencies with the utility providers so that all invoices are received on the first of the month.
- The method of payment.
- The storage of data.

These measures are expected to address most of the issues described above. In the transitional period, it is proposed to provide the energy report on a bi-annual basis for this year (i.e. quarter 2 and quarter 4).

The following table includes the properties for which data is available, which is of reasonable consistency and will be extended to further properties over time as the issues referred to above are dealt with:

Location	Utility Type	kWh usage**			
		2013/14	2014/15	2015/16	2016/17 (Up to 30/09/2016)
City lab	Gas	153,811.00	154,915.00	153,907.00	20,440.00
Lancaster Town Hall	Gas	380,208.00	368,549.00	400,000.00	69,021.00
Morecambe TIC	Gas	65,011.00	62,070.00	54,290.00	16,732.00
Morecambe Town Hall	Gas	151,397.00	153,605.00	148,939.00	19,334.00
Old Fire Station	Gas	29,596.00	46,305.00	32,108.00	11,778.00
Ryelands House	Gas	216,059.00	163,952.00	174,847.00	24,812.00
Salt Ayre Sports Centre	Gas	2,607,816.00	2,594,249.00	Incomplete	Incomplete
The Platform	Gas	164,549.00	153,671.00	109,632.00	21,169.00
Vehicle Maintenance Unit	Gas	108,229.00	104,997.00	144,252.00	25,262.00
White Lund Depot	Gas	386,525.00	261,517.00	Incomplete	Incomplete
White Lund Nurseries	Gas	261,032.00	165,654.00	188,065.00	70,575.00
City Lab	Electricity	187,563.00	178,874.00	158,091.00	61,620.00
Festival Market	Electricity	216,603.00	201,006.00	197,860.00	67,168.00
Hale Carr Cemetery	Electricity	152.00	165.00	79.00	24.00
Lancaster Town Hall	Electricity	316,709.00	280,793.00	284,544.00	123,512.00
Morecambe Town Hall	Electricity	176,396.00	161,311.00	162,039.00	71,958.00
Old Fire Station	Electricity	162,656.00	141,511.00	140,324.00	65,073.00
Ryelands House	Electricity	39,662.00	46,175.00	42,870.00	19,223.00
Salt Ayre Sports Centre	Electricity	733,226.00	889,632.00	1,084,895.00	531,773.00
Skerton Cemetery	Electricity	152.00	157.00	104.00	37.00
St Leonards House	Electricity	126,425.00	53,570.00	24,947.00	12,662.00
Storey Institute	Electricity	Incomplete	273,900.00	262,229.00	98,431.00
The Platform	Electricity	92,676.00	91,845.00	90,262.00	22,442.00
Torrisholme Cemetery	Electricity	1,223.00	1,039.00	3,361.00	222.00
Vehicle Maintenance Unit	Electricity	40,797.00	39,366.00	40,346.00	15,636.00
White Lund Depot	Electricity	171,693.00	169,110.00	161,610.00	43,905.00

Note that totals are not provided, as data is not complete for all properties.

Officers are working towards all properties being included under the YPO contract as existing contractual arrangements reach an end and the opportunity arises. At this point in time the following council run premises fall outside the YPO contract:

Property	Utility Type
Palatine Hall	Gas
Ryelands Park - Changing Rooms	Gas
AONB Partnerships Office	Electricity
Bridge End Depot	Electricity
King Street - 5a	Electricity
Palatine Recreation Ground - Veterans Club	Electricity
Ryelands Park - Changing Rooms	Electricity
The Platform	Electricity
Williamson Park	Electricity

6.0 Other Ongoing Issues

6.1 The Storey/Printroom

The Printroom opened on Friday 09 September 2016 following a period of refurbishment and recruitment. The aim was to create an environment that reflected the diverse and creative nature of the building, with a food and drink offer for the wide range of users and visitors, recognising the importance of the various business streams. Whilst the operation and the food offer started off small, it is developing and evolving in response to feedback. A full update is being prepared but points to note are:

- The menu has expanded and developed but all food is still made fresh, daily, using local produce.
- The marketing and promotion of the Storey and Printroom continues to develop, to help drive increased footfall.
- In terms of finance, income and gross profit continue to rise steadily. All indications are that the operation will very soon meet its average gross profit target.

Whilst it is still early days and inevitably there have been some teething issues, there are already benefits being gained from taking on the operation of the café and bar, to help with the overall viability of The Storey as a commercial property and an arts and cultural venue.

6.2 Corporate Property Strategy

Work continues on updating the Council's Corporate Property Strategy and this will be presented to Overview and Scrutiny Committee for pre-scrutiny in due course, ahead of it being presented to Cabinet. In support of this, arrangements are being made for a Member briefing on City and Council property portfolio matters, but at the time of writing this report the date had yet to be finalised. Any update will be fed into the meeting. Within Property Group, at present the City Council has no dedicated senior Officer capacity specifically for asset management. The role has typically fallen to service management, with input from other property specialisms (namely estates and facilities). Inevitably this slows progress on key initiatives, and options to address this capacity shortfall are being developed for consideration during the budget as need be.

CORPORATE PROPERTY QUARTER 2 REPORT - CAPITAL INVESTMENT PROGRAMME

Scheme	2016/17			2017/18		2018/19		Comments	All Years	
	Original £	Revised £	% Complete	Original £	Revised £	Original £	Revised £		Original £	Revised £
The Platform	181,000	181,000	10%	0	0	0	0	Works to enhance the building including, flooring, replacing doors, new toilet cubicles and dressing rooms, work to the roof.	181,000	181,000
Lancaster City Museum	375,000	375,000	5%	563,000	563,000	0	0	Complete re-roof. Future scope of works subject to outcome of Museums feasibility study.	938,000	938,000
Customs House - St Georges Quay	56,000	0	0%	0	70,000	0	23,000	Allocation moved from 2016/17 to 2018/19. Subject to further review. Future scope of works subject to outcome of Museums feasibility study.	56,000	93,000
Williamson Park - Ashton Memorial (Dome)	61,000	403,000	10%	61,000	0	0	0	Expose corroded steel beams in dome ceiling and make good.	122,000	403,000
Williamson Park - Ashton Memorial (Phase 1 tail end works)	0	43,000	50%	0	0	0	0	Project started in 2015/16 but not yet complete. Some of original budget moved over to 2016/17 to complete final stone paving works around the Memorial.	0	43,000
Williamson Park - Butterfly House	209,000	370,000	50%	106,000	0	0	0	Internal and external work to the frame and glazing.	315,000	370,000
The Storey	456,000	456,000	90%	0	0	0	0	Works to enhance the building including internal and external painting, garden walls, external railings, roof work, and café and bar refurbishment.	456,000	456,000
Assembly Rooms	89,000	89,000	5%	0	0	0	0	Heating, electrical re-wiring, flooring and decoration.	89,000	89,000
White Lund Depot	8,000	0	0%	0	0	71,000	175,000	Works to depot and stores to be informed by future property study.	79,000	175,000
Lancaster Town Hall	635,000	50,000	0%	10,000	585,000	35,000	45,000	Main areas of concentration in 2016/17 are toilets and Ashton Hall area. Larger elements (basement works) assumed to slip into 2017/18, but being assessed in more detail.	680,000	680,000
Lancaster Town Hall Disabled Access Ramp	100,000	100,000	0%	0	0	0	0	Build disabled access ramp and alter entrance to customer services.	100,000	100,000
Old Fire Station - Quarry road	61,000	61,000	0%	0	0	0	0	Internal works and some remodelling will be done as part of the Lancaster Town Hall works.	61,000	61,000
Ryelands Park & Ryelands House	401,000	141,000	50%	62,000	200,000	0	0	Internal works to Ryelands House, boiler replacement and remodelling of changing rooms.	463,000	341,000
Salt Ayre Sports Centre	1,000	261,000	60%	0	0	391,000	130,000	Part accelerated to 2016/17. Resurfacing of car park and internal works.	392,000	391,000
Lancaster Bus Station	59,000	59,000	5%	23,000	23,000	0	0	Internal and external decoration, works to toilets and cubicles, new entrance matting.	82,000	82,000
Promenade - Stone Jetty Café	29,000	29,000	100%	7,000	7,000	0	0	Repointing and making water tight.	36,000	36,000
Promenade - Stone Jetty	0	38,000	0%	0	0	0	0	Works to the jetty subject to further investigation work.	0	38,000
King Street Properties	65,000	108,000	10%	19,000	40,000	0	0	Works to electrical wiring and fire panel, refurbishment of upstairs rooms to make lettable.	84,000	148,000
Dukes Play House	0	94,000	5%	0	0	94,000	0	Accelerated to 2016/17 - Complete re-roof and asbestos removal.	94,000	94,000
Central Drive - Festival Market	0	28,000	5%	0	0	28,000	0	Accelerated to 2016/17 - New doors.	28,000	28,000
Regent Park - Pavilion Café	0	15,000	5%	6,000	0	0	0	External works to walls and woodwork.	6,000	15,000
Edward Street Dance Studio	0	65,000	5%	0	0	112,000	0	Demolition of property, given very poor condition. Budget part accelerated to 2016/17, balance not required.	112,000	65,000
Future Years Allocations - All Other Properties				1,048,000	708,000	751,000	638,000	Detail currently being reviewed - to be reported on in future updates.	1,799,000	1,346,000
TOTAL CAPITAL PROGRAMME	2,786,000	2,966,000		1,905,000	2,196,000	1,482,000	1,011,000		6,173,000	6,173,000