



Item 1 (d)

24th October 2018

Report to: Operational Performance and Delivery Scrutiny Committee

Date: 24th October 2018

Subject: City Property Operational Performance Report for the Thriving Economy Theme 2017/18

From: Pauline Barclay, Managing Director
City Property (Glasgow) LLP and City Property Glasgow (Investments) LLP

1 Background

1.1 City Property comprises two limited liability partnerships (LLPs):

- City Property (Glasgow) LLP (CPG) was established by the Glasgow City Council (the Council) on 1 October 2009, in order to provide for the management, development and disposal of the Council's non-operational land and property assets; and
- City Property Glasgow (Investments) LLP (CPGI) was established on 29th March 2010 by City Property (Glasgow) LLP to acquire the investment property portfolio of the Council in order to generate a capital receipt of £120million. The receipt was generated by City Property Glasgow (Investments) LLP borrowing debt finance from Barclays Bank Plc against the portfolio's future rental income.

The creation of City Property (Glasgow) LLP and City Property Glasgow (Investments) LLP was an integral part of the Council's reforms to the delivery of property services to provide efficient and cost effective services by a single organisation with a dedicated property focus.

City Property Markets became a trading division of City Property (Glasgow) LLP on 26 February 2012. City Markets operate the largest wholesale fresh fruit, vegetable and fish markets in Scotland at the site at Blochairn as well as a number of retail and farmers markets across the city.

2 Service Provision

2.1 City Property (Glasgow) LLP (CPG)

CPG has a Services Agreement with the Council to provide the following services:

- the management of the Council's non-operational land and property assets, approximately 310 assets;
- to generate capital receipts by the disposal of assets on the open market or by a nominated disposal;

- to deliver a property management service to the Council in the areas of valuation, technical services, insurance and asbestos;
- to provide strategic property management advice to the Council and other ALEOs;
- to provide project management and monitoring of property related projects to the Council and other ALEOs; and
- to manage of the open markets across the city.

In return for these services City Property (Glasgow) LLP receives a service fee from the Council.

2.2 City Property Glasgow (Investments) LLP (CPGI)

CPGI has a Services Agreement with the Council to provide the following services:

- the management of a commercial property portfolio containing retail, industrial and office property as well as community lets, over 1,800 assets
- the management of the Council's Common Good land/property, and
- the management of the wholesale markets at Blochairn.

In return for providing these services City Property Glasgow (Investments) LLP receives a service fee from the Council.

3 Thriving Economy

The LLP contributes primarily to the Thriving Economy Theme, although it also contributes to the other themes in the Strategy. Examples of how the LLP contributes to this theme are provided below,

3.1 Property Portfolio

CPGI is responsible for one of the largest property portfolios in Scotland with c1400 tenants. The activities undertaken continue to make a contribution to the Council's strategic plans for economic growth by further development of the commercial portfolio and the continued successful management of the Council's non-operational/surplus land and property.

3.2 Space for Growth Initiative

CPGI is a key member of the High Street Working Group. To assist with the strengthening of the local economy. The Council has developed a new strategy named Space for Growth (SFG). SFG is an initiative which will provide assistance for business start-ups, SMEs, social enterprises, creative industries and the community, providing a stepping stone in the organisation's growth.

CPGI is contributing to two strands of SFG, namely the *Meanwhile Space* Initiative and *Business Step Up*. These initiatives are aimed at supporting the regeneration of the High Street and Saltmarket retail areas and also stimulating wider areas of the city that have high levels of deprivation or in areas with challenging long term void properties. The proposed strands will also actively contribute to the improvements being progressed through the High Street Working Group as well as providing support for other Council projects to deliver economic growth. CPGI has allocated c£300k of funding to match contributions made through the DRS Independent Retail Fund Initiative and also to carry out repairs on vacant properties in the area to bring them into a lettable condition.

3.3 Disposal of Surplus Assets and Regeneration

CPG and CPGI are key players in ensuring that accommodation is available to meet demand from all areas of the business community and we also support regeneration through the redevelopment of vacant properties and brownfield sites to industrial, commercial or residential uses.

4 Overview of Operational Performance

4.1 The report uses the traffic light system to demonstrate visually performance against target. The KPI's detailed below represent the main areas of business undertaken on behalf of the council.

4.2 In addition to the performance metrics below, City Property also reports to Finance and Audit Scrutiny Committee on financial performance, internal audit progress and results and progress on the management of the common good fund property portfolio which City Property manages on behalf of the Council.

Symbol	Description	Explanation
	Red	5% or more outwith target performance
	Amber	2.5% to 4.99% outwith target performance
	Green	Within 2.49% of target performance
	No target	Data only indicators
	Unknown	Figures are unavailable or not reported

Performance Measure	Target Timescale	Reporting Frequency	Target & Actual 2016/2017	Target & Actual 2017/2018	Status	Comment
City Property (Glasgow) LLP						
Surplus Property - Capital Receipts						
The Council and the LLP agree annual targets for generating Capital Receipts. These are influenced by the prevailing market conditions and the nature of the properties being released for disposal.	Annual	Annual	Target £13m, Achieved £12.53m	£10.5m Achieved £10.13m		This performance measure is discussed on a monthly basis with the Council's Assistant Director of Financial Services and is reviewed on an ongoing basis to reflect changes in the economic climate.
Absence Management						
The LLP's absence target is agreed by the Strategic Board.	Annual	Quarterly	Target 2.50% Achieved 3.84%	Revised Target 3.50% Achieved 3.53%		The LLP currently has 89 employees equating to 76 Full Time Equivalent. Any Long Term sickness (LTS) has a significant impact on the absence rate. In Quarter 2 there were 119 days recorded as absent. Of the 119 days 44 was due to Long Term Sickness. The target was revised for 2017/18 to 3.5%.
City Property Glasgow (Investments) LLP						
Debt service coverage ratio (DSCR)						
DSCR is 1.15:1 or greater based on forward projections and 1:1 based on the last 12 months.	Annual (end of Financial Year)	Quarterly (Rolling target)	Target 1:1 Achieved 1.035:1	Target 1:15:1 Achieved 1.588:1		The LLP has regular dialogue with Barclays Bank and they are satisfied with the DSCR. This ratio is based on operating profit before any dividend is paid to the Council; or transfer of funds to debt service reserve and transfer of funds to maintenance reserve.

Performance Measure	Target Timescale	Reporting Frequency	Target 2016/2017	Target 2017/2018	Status	Comment
Loan Repayment						
Payments of £2.5m made to Barclays Bank as part of loan agreement.	Quarterly	Quarterly	Target & Achieved £10m	Target & Achieved £10m		Complied every quarter to date and funds available to meet the next quarter payment.
Profit Distribution to Glasgow City Council						
The LLP makes a distribution of profit to the Council based on financial performance. This is paid quarterly.	Annual	Quarterly	Target & Achieved £1.999m	Target & Achieved £3.52m		Note that the profit distribution to the Council has steadily increased from an initial level of £500k per annum. This was £1.5m in 2015/16 up to £2m in 2016/17 and then £3.5m in 2017/18 In 2017/18, the increase in profit distribution was based on projected income from Advertising revenue which has not been secured therefore shortfall is currently funded from Reserves.
Waste Management						
Tenants in the wholesale market generate significant waste which was going to landfill at a cost to the LLP. All cardboard, organic, fish and wood waste is now.	Annual	Quarterly (Rolling target)	Target 68%, Achieved 69.3%	Target 70% Achieved 82%		The LLP continually reviews its waste management plan in an effort to further reduce landfill waste. Following the fire at the Blochairn Complex, a review has been undertaken into the current recycling arrangements and plans are in place to complete a new build facility specifically for managing waste onsite.
Percentage of the City Property portfolio that is occupied.	Quarterly	Quarterly	Target 82% Achieved 78%	Target 82% Achieved 79%		City Property has continued to grow income from the portfolio, however a number of advertising hoarding site leases have terminated and this has had an adverse impact on the statistics. The second Advertising portfolio tender closed in July 2018 and we are now working towards putting new lease agreements in place.

5 Key Achievements during 2017/18

5.1 Exceptional Capital Receipt - Bothwell Exchange/Waterloo Street

CPGI concluded the sale phase 2 of the site at Waterloo Street to HFD Glasgow limited for £10.7m and was the culmination of months of work with the tenant to re-gear their ground lease interest. The site formed part of the former Albany and Holiday Inn Hotels site in Glasgow City Centre. It has been agreed that this receipt will be used to purchase surplus assets from the council to the same value.

This site will support c265,000sq ft Grade A office. Enabling works have been completed with site start in summer 2018. This will be the first development in Scotland to be accredited with a Platinum WiredScore Certification, assuring future occupiers with the best connectivity available.

5.2 Introduction of CPGI Community Asset Transfer Policy

The Investment Property portfolio is made up of many different types of property including many which support community related interests. Although CPGI is not currently subject to the Community Empowerment (Scotland) Act 2015, a new Community Asset Transfer policy has been developed which enables tenants to make application for a long lease or outright purchase of their property. The first sale is expected to conclude in this calendar year. CPGI is keen to support community groups where possible. It is believed that the introduction of the policy may allow Community groups to access greater funding availability and will allow more sustainable investment in their properties. CPGI has worked closely with the Council, Community Ownership Support Service and the Big Lottery in the development of this initiative and will continue to do so.

5.3 Redevelopment of Blochairn Wholesale Food Market

The major fire on 17 August 2017 destroyed one third of the trading stances at Blochairn. Since then significant recovery works have taken place, including demolition of buildings which were destroyed and assorted emergency works. Work is well underway to reinstate the main fire-damaged building which is still standing and there are now detailed plans to redevelop the site, which include:

- A programme of refurbishment to the whole market complex.
- Construction of a new Waste Handling Facility.
- Construction of new market stances on part of the site of the buildings destroyed by the fire.
- Marketing and development of a new Western Development site to attract new tenants and additional rental income.

5.4 The Loch's Shopping Centre

The Shandwick Shopping Centre, effectively Easterhouse's Town Centre, was purchased on 31 March 2016 from the Council. Work over the last year has seen the Shandwick Shopping Centre rebranded as The Loch's Shopping Centre and a programme of works has been undertaken with the main aim to improve the visual appearance of the centre and in turn to increase tenant demand, reduce running costs, and also the overall carbon footprint. CPGI is also working closely with colleagues in DRS regarding approved section 75 funding which is available for the refurbishment of the Shandwick Centre and surrounding public realm. Significant local consultation has taken place to ensure community interest is taken into account.

5.5 George Street Complex

This site was sold by CPG to the Chris Stewart Group (CSG) in December 2017, resulting in a £4.7m to the Council. Previously home to a number of City Council departments, the George Street Complex is made up of a collection of disparate and contrasting buildings – the category B listed corner building at 280 George Street, the A listed Parish Halls at 266 George Street, the 1940s John Street building and assorted small storage buildings on Martha Street. The buildings each enjoy their own distinct characteristics – a grand staircase, stained glass windows, decorative plaster ceilings and glazed brick.

CSG's proposals allow for a mix of complementary uses that will enable retention and refurbishment of much of the listed buildings, which add richness and give character to the site, with new build elements that will repair and reinstate the urban block. CSG is also looking to create a publicly accessible pedestrian lane that permeates through the centre of the site. This will help realise the full potential of the development by filling ground and mezzanine levels of the lane with a diverse mix of restaurant, cafe, studio, gallery and bar uses, which will bring real vibrancy and vitality to the whole area.

Planning permission, together with listed building and conservation area consents were granted in 2017 and focus is now turning to the timing and phasing of the project.

5.6 Contribution to Social Housing Development

Over the past year CPG has concluded the sale of 10 housing sites located throughout the City to Registered Social Landlord and Housing Associations which will provide an additional 294 Dwellings generating £2.34m in capital receipts to the Council.

5.7 Increased Profit Distribution to the Council

The profit distribution to the Council has steadily increased from an initial level of £500k per annum. This was £1.5m in 2015/16 up to £2m in 2016/17 and then £3.5m in 2017/18

In 2017/18, the increase in profit distribution was based on projected income from Advertising revenue which has not yet been secured therefore shortfall is currently funded from Reserves.

5.8 Development of a new Strategic Business Plan to 2023

During 2017-18 a new Business Plan was developed – the key points are presented in **Appendix 2** for information. You will note that the Business Plan provides detail of a number of new **Initial Key Performance Indicators (KPI) and Targets** which have been developed as part of the Business Planning process. The intention is that progress on these will be reported through the City Property Board. These are included in this report for your information.

6 Anticipated challenges for 2018-19

6.1 Delivering three year budget – Advertising

As noted at 3.7 above, CPGI has a significant profit distribution target for the Council, which was predicated on increased Advertising revenue. Although the initial tender was unsuccessful, the recent exercise has had better results. It is important that these tender bids are converted to leases and that the phase 2 advertising activity secures further revenue.

6.2 Capital Receipts Pipeline

CPG needs to work with the Council to ensure that an appropriate pipeline of land and property disposals is available, including addressing issues relating to the disposal of challenging assets.

6.3 Brexit

The impact of Brexit on the property market is an unknown quantity which will need to be monitored closely over the next year. Any economic downturn or reduction in the amount of development funding available may reduce the amount of developers looking to undertake schemes and may in turn reduce the number of bids received for property - negatively impacting on capital receipts. This may also lead to reduced occupancy levels in the investment portfolio.

7 Recommendation

Committee is asked to note the content of this report.

APPENDIX 1

City Property - Governance, Leadership, Management Arrangements and Structure

1 Governance Arrangements, Delegated Authority & Structure

1.1 Members

Each LLP has two members:

- CPG - 99.999% Glasgow City Council and 0.001% GCC LLP Investments Ltd
- CPGI - 99.999% Glasgow City Council and 0.001% CPG

Each LLP is governed by a Strategic Board made up of the same Board members, who are appointed by the Council, and one Audit Committee oversees both LLPs. Each LLP operates in its own name, directly enters into contracts and keeps separate accounts. Only CPG employs staff.

1.2 Strategic Board

Both CPG and CPGI are governed by a Board of Directors appointed by the Council.

The Strategic Board consists of a Chairman (an elected member), the Managing Director of the LLP and five further board members, four of whom are elected members directly appointed by Glasgow City Council in addition to an appointed officer from the Council. This appointed officer is the Director of Property and Land Services.

The LLP Board manages the business and affairs of the LLPs and provides high level leadership and strategic direction to the organisation.

The Managing Director has responsibility for the executive management of the organisation and is accountable to the Board. The current Board of the LLP comprises of the following members:

Councillor Angus Millar	Board Chair
Bailie Norman MacLeod	
Bailie Jacqueline McLaren	
Councillor Robert Bell	
Councillor Tony Curtis	
Pauline Barclay	Managing Director
Ian Robertson	Director of Property and Land Services

The board meets 4 times a year and has responsibility for the running of the LLP.

1.3 Audit Committee

The Audit Committee is chaired by Councillor Curtis and meets twice per year. It is responsible for overseeing the internal and external audit function and reviewing the professional and other operational business risk issues affecting the LLP. This includes the management of those risks to ensure that they remain robust, appropriate and effective. It also reviews the LLP's Register of Gifts and Hospitality.

1.4 Delegated Authority

1.4.1 City Property's Scheme of Delegation

The LLP operates a Scheme of Delegation which details all delegated authority and responsibility for Finance and Procurement, Property and Human Resources relative to staffing levels. The Scheme delegates authority to the Strategic Board, senior officers of the LLP. CPGI also has a requirement to consult with, and seek approval from Barclays for certain transactions at defined financial levels.

1.4.2 The Council's Scheme of Delegation

All matters relating to Council owned properties which do not require Contracts & Property Committee approval must be progressed under the Council's Scheme of Delegation. Reports are submitted to the Executive Director of Regeneration and the Economy in this respect.

2 Leadership & Management Arrangements

2.1 Managing Director

The Managing Director reports to the LLP Board and liaises with Glasgow City Council's Chief Executive, Executive Director of Finance and Director of Governance and Solicitor to the Council.

The Managing Director leads a professional property and markets organisation and is responsible for:

- advising the Board on matters regarding the strategic direction of the organisation
- developing and maintaining a commercial property investment portfolio; and
- the management, development and disposal of the Council's non-operational surplus land and property assets; and
- providing management services for the Council's longer term commercial ground leases; and
- developing of a skilled and qualified management team; and
- development of the Markets at Blochairn and Open Markets within the city; and
- developing and maintaining good relationships with the LLP Board, Council, ALEOs, other partner organisations, Scottish Government and tenants.

2.2 Strategic Leadership Team

The Strategic Leadership Team (SLT) assists the Managing Director of City Property in developing and promoting the LLP's strategy, services and culture in accordance with the LLP's Vision & Values. The team is made up of the Head of Corporate & Technical Services and the Head of Property and is responsible for providing strategic leadership for the review and transformation of the LLP's and the Council's land and property holdings to ensure that they deliver maximum capital and financial benefits, deliver optimum social and community benefits, supports the regeneration of the City and enables effective delivery of services to meet the needs of stakeholders of the LLP and the Council.

The Strategic Leadership Team meet regularly with the remit being to ensure strategic decision making and communications are effective at all levels through the LLP's, the team is a crucial link between the operational side of the business and the goals and values as laid down by the Managing Director.

2.3 Senior Management Team

The single largest factor for success in operational excellence is leadership. The Senior Management Team (SMT) is focused not only on getting results but getting results the right way and behaving in accordance with the LLP's values. The SMT is accountable for running the LLP and enabling and delivering performance. By their actions, the SMT manage and drive execution and reinforce the LLP's culture.

The SMT will demonstrate clarity of purpose and inspire others. They will:

- Lead by example demonstrating integrity, honesty and trust.
- Motivate by listening, responding, informing, supporting and empowering.
- Support staff and recognise and nurture their development.
- Continually engage with teams and colleagues, positively and constructively.
- Be visible and approachable.
- Encourage innovation, drive and support others to embrace change.

2.4 The LLP's Structure

The various business units within the LLP are as follows:

Property	Corporate & Technical
Commercial Investment Services	Technical Services
Development Services	Asbestos Services
Valuation Services	Project Management Services
Wholesale and Retail Markets	Finance & Risk
	Business & Governance

City Property Strategic Business Plan 2018 – 23 (Extract)

City Property's priorities must support the economic, financial and service delivery objectives of the Council. We will therefore deliver this Strategic Plan across four priority areas as follows:

Priority Area 1 - Contributing to the Growth of Glasgow's Economy

Glasgow has proved itself to be resilient when faced with huge economic challenges, especially in the past decade and has developed an economically strong, broad-based economy which stands comparison with the rest of the UK and indeed the rest of Europe.

City Property has an important role to play to help achieve opportunities for all of Glasgow to flourish through increasing sustainable economic growth. We therefore will focus our economic development efforts on those sectors where Glasgow has unique strengths and which have the greatest capacity for growth.

We will help create the conditions for growth by assisting with the remediation of land and investing in our assets. We will work closely with the development industry to create attractive housing market opportunities by de-risking development activity and ensuring that people have access to the means to buy and rent Glasgow's homes.

City Property will also contribute to the development of a comprehensive business support offer to make Glasgow the most business friendly city in the country. Small and medium-sized enterprises (SMEs) are the lifeblood of the Glasgow economy and we will make supporting them a priority.

Priority Area 2 - Maximising the Benefit of our Property Assets

The way we use our property assets in the future not only will enable change in the way we work but will deliver a significant financial contribution and potentially leverage in further investment and economic development.

We will consider alternative delivery models potentially working with both public and private sector partners to secure the most effective means of delivering our assets strategy. We will seek to consolidate, share and develop our assets across the whole of the estate, delivering efficiencies, better service provision and an opportunity to align property assets more effectively to the wider place agenda.

Priority Area 3 - Using Collaboration and Innovation as Drivers for Success and Growth

City Property recognises the importance and role of customer satisfaction in our work. Our Business Plan establishes two cross cutting principles that relate to stakeholder satisfaction, the need to measure it and the need to improve our services in response to stakeholder experiences.

Our stakeholders have told us that they want to know more about City Property, to become more involved in decisions that affect them and to hear more about our performance. The focus in this plan is to be more accountable, open and transparent and to demonstrate that we are responding to stakeholders' views.

Priority Area 4 - Providing Financial Sustainability

Since inception City Property successfully has met all of its financial commitments to both Barclays and the Council. This has been a challenging period given the significant economic pressures and financial constraints.

Our continued success very much will depend on our response to resource pressures as we enter an era of further financial constraint. In the future we may have to do the same for less and in a different way. We therefore must streamline our processes to ensure that we are joined up and collaborative.

Measures of Success

City Property's plan will be supported by a robust approach to performance management. We will provide meaningful evidence of delivery and performance against our plan and inform and provide evidence of the wider impact of City Property in supporting the Council and partners to improve. A key aim of our approach is to move beyond measuring and reporting progress towards improved decision making and greater impact for our stakeholders.

Performance will be reported on a quarterly cycle and include the following:

Delivery	We will continue to report on progress and risk against individual objectives, but will also include additional quantitative and qualitative performance measures where it is meaningful so to do.
Staff/Stakeholders	We will report on staff and customer satisfaction measures.
Impact	We will report on individual programme evaluations combined with internal best value reviews of services and projects.
Organisation	We will report on the key performance measures as detailed below.

Initial Key Performance Indicators (KPI) and Targets

Priority Area 1 - Growing the Economy Key Objectives	KPI	Target	Year
1. Supporting new jobs and business start-ups.	Number of new jobs created in Space for Growth Premises.	To be evaluated as part of project	2019/20
2. Assisting in meeting the Council's ambitions for regeneration, housing and capital receipts.	Capital Receipts Target set by Glasgow City Council.	£10.3m	2018/19
3. Managing challenging assets.			
4. Using Professional expertise deliver new property opportunities and developments.	Number of new jobs created in new build space at Blochairn.	To be evaluated as part of project	2019/20
5. Improving and expanding City Markets.			

Priority Area 2 - Maximising the Benefit from Property Assets held by City Property Glasgow (Investments) LLP Key Objectives	KPI	Target	Year
6. Increasing occupancy levels in the property portfolio.	Percentage of occupancy levels	80%	2018/19
7. Delivering our capital investment plans.	Percentage annual increase in rental growth	5%	2018/19
8. Increasing income and reducing costs.			
9. Producing an effective asset management strategy.			
10. Improving the environmental sustainability of the portfolio.			

Priority Area 3 – Collaboration Key Objectives	KPI	Target	Year
11. To explore new opportunities for partnership working with GCC Family and Property and Land Services.	Completed Community Asset Transfer/Leases	To be evaluated as part of policy	2019/20
12. To participate in community engagement and asset transfers.	Overall Tenant Satisfaction	75%	2018/19
13. To have productive agency arrangements and explore new partnership opportunities.			
14. To strengthen relationships and encourage feedback from all of our stakeholders.			

Priority Area 4 - Providing Financial Sustainability Key Objectives	KPI	Target	Year
15. To increase rental income from advertising opportunities.	Advertising Revenue	£300,000 £750,000 £1m	2018/19 2019/20 2020/21
16. To advance current service delivery and seek new opportunities.	Revenue from new Commercial Developments	£200,000 £500,000	2019/20 2020/21
17. To invest wherever this will result in improvements to the business.			
18. To explore opportunities to release value and equity from the commercial portfolio.			