

**FROM:** Audit and Risk Manager

**SUBJECT:** Corporate Property and Portfolio Management

**TO:** Head of Assets

**DATE:** 9 March 2022

**C.C.** Chief Executive  
Deputy Chief Executive  
Head of Finance  
Senior Building Surveying Project Manager  
Portfolio Holder (Cllr Matecki)

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## 1 Introduction

- 1.1 In accordance with the Audit Plan for 2021/22, an examination of the above subject area has recently been completed by Jemma Butler, Internal Auditor, and this report presents the findings and conclusions for information and, where appropriate, action.
- 1.2 Wherever possible, findings have been discussed with the staff involved in the procedures examined and their views are incorporated, where appropriate, into the report. My thanks are extended to all concerned for the help and cooperation received during the audit.

## 2 Background

- 2.1 The Council's corporate property and portfolio profile consists of the following:
- |                           |     |
|---------------------------|-----|
| Car Park (surface Level)  | 29  |
| Car Park (Multi Storey)   | 3   |
| Built Asset (Building)    | 205 |
| Built Asset (Sub Station) | 74  |
| Land Asset (Open Space)   | 120 |
- 2.2 Management of these assets involves monitoring the maintenance, insurance, and rental collection (where applicable). Not all the assets are income-earning. The management of the portfolio directly effects the opportunity for the Council to receive an income or create employment opportunities within the district.
- 2.3 In 2021 a change of staff resulted in the opportunity to change the processes and procedures in place for the management of the corporate portfolio. After many years of the role being carried out by one person there was a need to update and streamline the processes, enabling the tasks to be completed by more than one officer. The lines of authority also needed to be re-established to ensure decision-making was consistent across the Council.
- 2.4 For the purpose of the audit the range and scope has not included housing stock or leaseholder service charging as these are reviewed separately in other audits. It also does not cover repairs and maintenance as, again, this is covered in a separate audit. The team responsible for the management of the corporate

assets are referred to as the Estate Management Team; note that estate in this context refers to the Council's portfolio and not the management of the housing estates.

### **3 Objectives of the Audit and Coverage of Risks**

- 3.1 The audit was undertaken to test the management and financial controls in place. This was achieved through a 'risk-based audit' approach whereby key risks are identified and then processes are assessed to provide assurance that the risks are being managed effectively. This approach has been in place by WDC Internal Audit since only the start of this financial year following an external review of the function.
- 3.2 In terms of scope, the audit covered the following risks:
- The ledger allocates property income and repair budgets to services where they may be used incorrectly.
  - Unlawful property transactions.
  - Property interests compromised by missing or irretrievable records.
  - Contracts are poorly managed.
  - Public criticism of decisions on property assets.
  - Misuse of property assets for financial gain.
  - Non income-earning assets are not monitored and could become in a state of disrepair or the licence be affected.
  - Lack of continuity and consistency in approach to the management of corporate property.
  - The organisational structure and authority of corporate property and portfolio management is unclear resulting in inconsistent decision making.
  - Estate Management Team are not aware of their roles or follow different processes.
- 3.3 Potential risks were also identified in the Significant Business Risk Register, the departmental risk register, and discussion between the Internal Auditor and the Senior Building Surveying Project Manager (SBSPM).
- 3.4 These risks, if realised, would be detrimental to the Council with regards to meeting the following corporate objectives, as set out in the Fit for the Future Strategy:
- Both the internal and external money strands.

## **4 Findings**

### **4.1 Recommendations from Previous Reports**

- 4.1.1 The current position in respect of the recommendations from the audit reported in March 2019 was also reviewed. The current position is as follows (overleaf):

Recommendation		Management Response	Current Status
1	The draft strategy should be considered for approval to ensure that the Council has framework in place to allow for future planning and investment decisions to be made appropriately in relation to these valuable corporate resources.	Following the Asset Management redesign, this strategy has been rescheduled for completion in 2019 and the Asset Management Steering Group will be reconstituted in April to drive the process.	The steering group and strategy consider future planning and investment decisions.
2	A reconciliation of non-operational assets should be undertaken between the different data sources.	Agreed. A reconciliation will be carried out as suggested.	This was completed. Data for non-operational assets is available to view in one location.
3	Evidence should be retained of any agreements made with regards to rent reductions (including rent free periods) agreed with tenants of non-operation properties.	Agreed. Evidence will be retained as appropriate for all agreements made.	Procedure notes detail this process and sampling shows that evidence is obtained.

## 4.2 Financial Risks

### 4.2.1 The ledger allocates property income and repair budgets to services where they may be used incorrectly.

The SPSBM has overall responsibility for the budgets of commercial properties since mid-2021 when the previous manager left the Council. The budgets are split down into key areas where individual officers monitor and manage the budgets, such as Enterprise Development and Housing Rent Accounts. There is also an additional un-allocated repairs and maintenance budget with the Assets Manager holding responsibility.

The recently-implemented finance system has a sorting function where budget codes can be filtered to the budget managers name. This helps budget managers to identify the budgets they are responsible for, enabling them to monitor the budgets appropriately.

A sample of invoices allocated to the estate management codes was reviewed. The invoices had all been authorised by the appropriate officer and had been paid in a timely manner.

A discussion was had with the accountant who was able to provide detailed information about the codes, the purpose of the funds and the allocated budget manager.

#### **4.3 Legal and Regulatory Risks**

##### **4.3.1 Unlawful property transactions.**

There are a large number of policies and procedures in place for the management of the corporate property and portfolio. This includes a Scheme of Delegation, Process Notes and email / letter templates. The templates include instructions to Legal, lease documents and the finance checks to carry out.

A sample of ten leases or licences (electronic records) was reviewed. All of the sample had been signed by either the leaseholder or a representative of WDC. The solicitors do not require there to be both signatures on one document and often find it quicker and more cost effective to have both parties sign separate duplicate documents. The leaseholder would receive a copy of the agreement signed by WDC, this would be scanned and saved electronically. The copy signed by the leaseholder, when received, would be stored in the deed store. The solicitors view the duplicate signed copies as one complete document. Due to the restrictions in place at the time of the audit the deed store copies were unable to be reviewed. As the deed store has a control in place where documents are only accepted if they have been signed it highly likely that the duplicate signed document is held.

The process and procedure guide (including the Scheme of Delegation) details the signatures required and the officers authorised to sign the documents.

The terms on the leases and licences are detailed and many of the documents reviewed include photos of the property or land at the start of the lease or license term.

##### **4.3.2 Property interests compromised by missing or irretrievable records.**

Database and electronic records maintained are predominantly those of income-earning assets. There are paper copies of assets which are non income-earning. Since the handover in May 2021 all the records are being reviewed and logged onto the database and copies saved to the electronic folder. This exercise is allowing the Estate Management Team (EMT) to identify, add and update the database and electronic records to include non income-earning assets. As this is an ongoing process and action is being taken to resolve the risk of assets being missing a recommendation is not required at this time.

Records are kept on a database which allows easy updating of details which can then be accessed by a number of staff. The database allows various reports to be run so the EMT can check the status of licences and leases enabling them to be managed appropriately and reviewed / renewed in a timely manner.

#### 4.3.3 **Contracts are poorly managed.**

There are three contracts in place to assist with the management of the corporate portfolio. These are with Carter Jonas, Bruton Knowles and Lambert Smith Hampton Ltd. The contracts are all due to be renewed between July and October 2022. There are copies held electronically for two of the contracts in place and hard copies within the deed store all of which are signed. The total value of the contracts is £111,000. The Contract Managers are all identified on the contract register, although one of the contracts is registered to an officer no longer working for the Council so the register will need updating. This was highlighted during the audit so action could be taken immediately to update it.

The SPSBM is working with the Procurement team to explore the possibility of retendering for a combined contract. Aligning the three contracts and renewing them together using a single supplier could potentially save the Council money. All potential conflicts and procurement issues will be considered as part of the process.

In addition to the three contracts marketing agents are sometimes used but these are sourced from the list of preapproved suppliers.

#### 4.4 **Reputational Risks**

##### 4.4.1 **Public criticism of decisions on property assets.**

Since May 2021 comprehensive estate management notes have been created and implemented. Complete with templates, these notes and processes ensure a consistent lettings approach is followed.

Vetting of tenants is carried out by obtaining references, reviewing financial records and completing financial checks, thus reducing the risk of non-payment of rents and rates.

There is a Scheme of Delegation in place which sets out the responsibilities and authority for decision-making for staff which includes the Chief Executive and the Heads of Services. Within the document each role lists any conditions in place, whether more than one officer can authorise or carry out an action, and guidance in the case of officer absence. The document also identifies actions that can be completed by more than one officer. For example, either the Head of Assets or the Head of Development can grant new leases on vacant properties.

The guidance considers the public interests as well as relevant laws and legislation including the Housing Act 2004, the Energy Act 2013, the Environmental Protection Act 1990 and many more.

## 4.5 **Fraud Risks**

### 4.5.1 **Misuse of property assets for financial gain.**

Rent rates are set in line with RICS<sup>1</sup> best practice guidance. For new leases and rent reviews, where a rent review calculation has not been clearly set within a lease, the EMT use Bruton Knowles to undertake the review. They keep track of these rent valuations (per case/ commercial property) during the monthly meetings between the Council and Bruton Knowles.

An excerpt from the management spreadsheet was provided for the audit. Showing the rent valuation, calculations and negotiations carried out between the Council and Bruton Knowles. Once a rate has been agreed, the EMT will get delegated authority from the Head of Service to instruct the new rate.

A new filing system has been set up to include any evidence i.e. email requesting delegated authority and any related calculations or information from Bruton Knowles.

A sample of recently completed leases and rent reviews was examined. The relevant correspondence and documents were filled in the locations expected in the new folder structure and reviews had been evidenced appropriately. The previous Officer had the relevant qualifications to complete the reviews themselves but had also been using Bruton Knowles to free up their time for other tasks.

When there is a new lease, renewed lease or rent review the relevant data is updated in Active H. This allows the EMT to run reports using Ripplestone (the reporting system). The reports can list any rent reviews due within a set time frame, for example twelve months. This allows the EMT to prepare and complete reviews in a timely manner.

When a new rent is set, an email is sent to the FSTeam and the accountant. This then allows them to update their records and to charge the rent or calculate the projected income respectively. Leasehold rates/rent are set annually by the Leasehold Service Charge team. The fee charged covers the costs for communal areas and maintenance. This is based on the floor area of the property or land.

Rent rates are set using the feedback and rent advice from Bruton Knowles who evaluates the rent of the property. A copy of a rent review memorandum is held in the shared folder to ensure a consistent approach when communicating with the tenants.

## 4.6 **Health and Safety Risks**

### 4.6.1 **Non income-earning assets are not monitored and could become in a state of disrepair or the licence could be affected.**

The database (held on the Active H estate management system) was accessible for the auditor for the purpose of the audit allowing various properties to be

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<sup>1</sup> RICS is The Royal Institution of Chartered Surveyors

reviewed. Corporate portfolio properties were easily identified within the database under a separate heading to the housing properties. Details held include the current tenant details, charges, invoices issued and work completed as well as historic data. The SPSBM highlighted that the non income-earning assets were previously not listed on the database but the EMT are working on adding them.

The procedure for updating the records is simple but clear. When adding to or updating the records on Active H there are separate processes / instructions available that are maintained and updated by the Systems team. Once the Active H has been updated the EMT also update the electronic file system with any relevant documents.

The database can be accessed by a large pool of Council officers within the Housing and Assets teams. The data can be edited by the EMT who can monitor the portfolio by running reports using Ripplestone.

The data is backed up automatically according to the ICT backup rota. ICT backups are covered separately in another audit so it has not been covered for this audit.

Paper copies of documents are scanned and saved to the database as well as the electronic folder. Legal documents are then stored securely in the deed store.

All historic scanned documents are uploaded to one folder and the EMT use the search function to find the data or documents needed. Once located they can be updated and moved to the appropriate folder.

#### 4.7 **Other Risks**

##### 4.7.1 **Lack of continuity and consistency in approach to the management of corporate property.**

As mentioned in para. 4.3.1 there are a comprehensive set of Process Notes in place which ensure there is a consistent approach to the management of corporate property as well as a Scheme of Delegation. The Process Notes include a set of templates to ensure communication is consistent. The Scheme of Delegation sets out the responsibilities for the officers.

The Business Strategy 2020/23 sets out long-term goals relating to the management of Council assets. These include improving financial footing by having a better return or use of Council assets, and improving the energy efficiency of the Council's current buildings to meet the climate emergency targets. There are also specific aims to deliver the asset management strategy plan, review the Council's commercial property portfolio for potential disposals, acquisitions, and revised leases, review built corporate assets energy costs and review the Council's operational asset requirement.

One of the aims in the Business Strategy 2020/23 was to deliver the Asset Management Strategy Plan. This has been developed and updated enabling the EMT to assess, categorise and agree options and interventions for each of the

Council's corporate and commercial assets. Actions and criteria within the Strategy will also assist in meeting the Climate Emergency agenda and the emerging Council Action Plan.

There is a Risk Register in place that highlights relevant risks that the Assets team could face. Some of the key risks include poor governance affecting decision making, and lack of insurance in place failing to protect Council owned property. There are some key risks identified which would directly impact the management of corporate property and portfolio. These have been identified as ineffective asset management, incomplete data and failure to protect and maintain Council-owned property. The risk register has a number of controls in place to reduce or remove the risks identified.

One of the key risks identified was lack of insurance and failing to protect Council property. The Council holds building insurance for all the built portfolio but land is not insured. Where the property is leasehold, the leaseholders are charged a service charge which included a portion of the insurance costs for the building they occupy.

There were two corporate buildings identified where the tenants arrange buildings insurance themselves. The Council do not obtain proof of insurance from these tenants. The lease for these properties states that the tenant needs to have insurance and that they are to provide it for themselves. They are fully repairing and insuring leases. On discussion with the auditee, it was felt that insurance for these properties should be checked and evidenced to protect the property.

### **Recommendation**

**When it is written into leases that the building insurance is to be provided by the tenant proof should be obtained and evidenced to help protect the Council from losses.**

#### **4.7.2 The organisational structure and authority of corporate property and portfolio management is unclear resulting in inconsistent decision making.**

There is a Scheme of Delegation in place which sets out the responsibilities and lines of decision-making for the management of corporate property and portfolio. It was approved by Council on 28<sup>th</sup> July 2021. The lines of authority are clearly defined within the Scheme of Delegation.

The SPSBM has operational responsibility for the overall management of corporate assets, reporting to the Head of Assets. The job description of the SPSBM sets out clear expectations for the role.

The Scheme of Delegation was shared with senior management prior to approval at Council to ensure they were aware of their duties and responsibilities.

By having clear lines of authority it helps to keep decision-making consistent and prevents confusion across roles.



#### 4.7.3 **Estate Management Team are not aware of their roles or follow different processes.**

As mentioned in para. 4.4.1 the Scheme of Delegation clearly sets out the roles and responsibilities for Council officers regarding corporate property and portfolio management.

There are comprehensive processes and procedures set out within the Process Notes document. These include day-to-day management and duties as well as ad-hoc and infrequent duties, such as disposal and leasing. This document can be used by the EMT to ensure that they follow the same processes and issue the same documents.

All of EMT have access to the documents which highlights their role and the processes to follow.

## 5 **Conclusions**

5.1 Following our review, in overall terms we can give a SUBSTANTIAL degree of assurance that the systems and controls in place in respect of Corporate Property and Portfolio Management are appropriate and are working effectively to help mitigate and control the identified risks.

5.2 The assurance bands are shown below:

<b>Level of Assurance</b>	<b>Definition</b>
Substantial Assurance	There is a sound system of control in place and compliance with the key controls.
Moderate Assurance	Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls.
Limited Assurance	The system of control is generally weak and there is non-compliance with controls that do exist.

5.3 One issue was identified regarding obtaining evidence of insurance for the Council's portfolio.

Richard Barr  
Audit and Risk Manager

## Action Plan

### Internal Audit of Corporate Property and Portfolio Management – March 2022

Report Ref.	Risk Area	Recommendation	Rating*	Responsible Officer(s)	Management Response	Target Date
4.7.1	Other Risks	When it is written into leases that the building insurance is to be provided by the tenant, proof should be obtained and evidenced to help protect the Council from losses.	Low	Senior Building Surveying Project Manager and Risk	The Senior Building Surveying Project Manager will check that the insurance held is valid and meets the level of insurance required. The Risk & Insurance Officer can provide guidance if needed.	01/03/2022

\* The ratings refers to how the recommendation affects the overall risk and are defined as follows:

High: Issue of significant importance requiring urgent attention.  
Medium: Issue of moderate importance requiring prompt attention.  
Low: Issue of minor importance requiring attention.