

INTERNAL AUDIT REPORT

TO: Head of Housing & Property Services
SUBJECT: Corporate Property Repair and Maintenance

CC Chief Executive
Deputy Chief Executive
Head of Finance
Building, Construction and Surveying Manager
MY REF: CPR/JK/JW

FROM: Audit & Risk Manager
DATE: 26 March 2013

1 INTRODUCTION

- 1.1 As part of the 2012/2013 Audit Plan, an audit has recently been completed on the systems and procedures in place to manage the repair and maintenance of the council's corporate property.
- 1.2 This report outlines the approach to the audit and presents the findings and conclusions arising.

2 SCOPE AND OBJECTIVES OF THE AUDIT

- 2.1 The audit was undertaken in order to establish and test the controls in place over the management of corporate property repairs and maintenance (CPR&M).
- 2.2 An audit programme identified the expected controls and the possible risks arising in the absence of those controls.
- 2.3 Specifically the control objectives examined were as follows:
- 2.3.1 Arrangements are in place for the overall management of corporate property.
- 2.3.2 All corporate property is defined and identified.
- 2.3.3 Properties are maintained both responsively and in a programmed/preventive manner.
- 2.3.4 Expenditure is approved and controlled.
- 2.3.5 Works of a responsive nature are based on a schedule of rates wherever possible.

- 2.3.6 Programmed works are ordered in accordance with the Code of Procurement Practice.
- 2.3.7 Tenants' responsibilities for repairs are clear, recorded and complied with.
- 2.3.8 Access to the repairs system and the privileges within it are controlled, recorded and reviewed regularly.
- 2.3.9 The risks associated with CRP&M are identified, recorded and managed.

3 BACKGROUND

- 3.1 Corporate property encompasses all land and buildings that are held for operational purposes e.g. offices, leisure centres, parks and for non-operational or investment purposes e.g. shops, offices, clubs. It also includes items such as monuments, statues and public art.
- 3.2 The Council's statement of accounts for 2011/12 shows that at the year end operational land and buildings were valued at £54.11m and non-operational property was valued at £9.22m.
- 3.3 CPR&M is managed by Housing and Property Services and predominantly the Building Surveying team which is headed by the Building, Construction and Surveying Manager. His line manager is the Property Manager who has been on sick leave for most of the year and is about to leave the Council's employment.
- 3.4 The original budget for CPR&M in 2012/13 was £1,234,600 and this has been revised to £1,465,300.

4 FINDINGS

- 4.1 In overall terms, the audit concluded that there are reasonable controls in place over the management of CPR&M, as would be expected given the long standing nature of the activity.
- 4.2 However, as is generally known, there have been issues this year with the budget for CPR&M and the reasons, possible causes and measures being explored to address the situation will be expanded on later.
- 4.3 In respect of the control objectives listed at 2.3 the findings are as follows:

4.4 Overall management of corporate property

- 4.4.1 Property is a vital component of service delivery so it is important that it is fit for purpose and that the number of properties held are appropriate for current and future needs.
- 4.4.2 Accordingly there are various measures in place to manage property both strategically and operationally. The most recent example being the creation of

the Limited Liability Partnership which will assist the council to manage its assets at the very highest level.

- 4.4.3 In terms of dealing with more immediate issues but which include the acquisition or disposal of property, there is a Strategic Asset Group (SAG) which comprises senior managers.
- 4.4.4 Below that but still comprising very senior staff and Service Heads is the Corporate Property Improvement Board (CPIB). This deals with more immediate operational issues and also budget monitoring and budget preparation.
- 4.4.5 The Code of Financial Practice makes numerous references to responsibilities for both the management and control of corporate property and for its repair and maintenance.

4.5 **Identification of corporate properties**

- 4.5.1 Details or lists of corporate properties exist in a number of different locations, in different formats and for different purposes eg insurance, capital, accounting, portfolio management, income, repairs etc. Suffice to say that they will all differ slightly but given the size of the authority and the relatively small number of operational properties, which attract most of the attention and resources, this is not a significant risk.
- 4.5.2 The number of operational properties remains fairly static with few acquisitions or disposals.

4.6 **Responsive and preventive maintenance**

- 4.6.1 It is widely accepted that the sensible approach to building maintenance is an ongoing, programmed approach as opposed to a bare minimum or last minute approach. This is the course that the council has followed over the years and why corporate property is generally held to be in good repair.
- 4.6.2 In order to be able to take this route there needs to be fairly regular inspections and site visits in order to assess the medium to long term repair needs of a property.
- 4.6.3 This is carried out in two ways. Firstly all corporate properties have a designated Building Surveyor assigned to them and they will meet with the building manager each month to consider any immediate repairs and the potential for any future improvements or maintenance.
- 4.6.4 Secondly the broader approach is to undertake a stock condition survey of all corporate property in order to identify any short term problems and the remaining useful life of the individual components of the building so that a programme of future works can be prepared and prioritised.

- 4.6.5 The latest survey was undertaken by E C Harris toward the end of 2012 with a report being issued in January 2013. Included in the report are forecasts of the likely expenditure needed on individual properties over the next 30 years.
- 4.6.6 Overall the message from the report is that corporate property is in a fair condition as a result of having been well maintained over the years. This assessment applies mainly to the fabric of the buildings and not to the mechanical and electrical plant which in most cases is operational but nearing the end of its useful life.
- 4.6.7 Responsive repairs will nearly always have to be carried out on the grounds of public safety and service delivery. Whenever they are required the building manager will refer them to the designated building surveyor who will arrange the work as appropriate.
- 4.7 **Expenditure is approved and controlled**
- 4.7.1 The budget for CPR&M has in the past, including the current year, enjoyed something of a unique status in that it was in effect approved twice by Executive. It was approved as part of the annual Budget and Council Tax setting process and also under a separate report.
- 4.7.2 The reason for this is not crystal clear but is said to be due in part to serious overspends in the past generating interest from members, the size of the budget and its relevance to overall service delivery and in order to give the whole process a greater degree of transparency. Also presenting the proposed programme of works to members allows them the opportunity to comment and possibly reprioritise the projects.
- 4.7.3 After the budget (£1,335,400) was approved, the usual actions followed in that it was signed off by the appropriate budget holders and then published in the Detailed Budget Book 2012/13.
- 4.7.4 In the Budget Book the budget is presented in considerable detail and broken down over around 45 headings so that regular routine work on such areas as alarms, lifts, access systems etc can be easily identified rather than lost in one block allocation.
- 4.7.5 By various means the budget is then monitored as the year progresses in order to ensure, as far as is possible, that there are no significant overspends and that any potential or projected problems are identified early and then mitigated.
- 4.7.6 As mentioned earlier in this report, managing or containing the budget for 2012/13 has been a serious problem and a report to SMT on 30 January 2013 was forecasting an overspend of £436,000 which, by deferring some planned works and utilising savings in other areas, could be reduced to £146,000.
- 4.7.7 The report to SMT indicated that the problem was due in part to exceptional items such as asbestos removal. There was a budget for asbestos removal

which was utilised on a number of jobs but around £100,000 was spent at the Royal Pump Rooms on asbestos removal for which there was no budget.

- 4.7.8 In addition around £88,000 was spent on refurbishing the old Sea Cadets building in order to accommodate a new tenant, Hybrid Arts, again where there was no budget.
- 4.7.9 These are just two examples of why an overspend has occurred and there are other specific areas in addition to some unavoidable overspends on routine responsive repairs. Needless to say the situation has not gone unnoticed and officers in Finance and Housing and Property Services are working closely to look at the causes and more importantly to examine ways of improving budgetary control and monitoring.
- 4.7.10 An examination of minutes for the Property Services Budget Review Group suggests that as well as work being carried out where there is no budget, the overspend situation is not being helped by possible miscodings, inadequate budgets in the first place, inexperience of budget monitoring and forecasting and use of Total, and lack of resources.
- 4.7.11 Budget management and budgetary control has always been an important area for the council and for around the last ten years it has been managed corporately on a far more formal basis than before. There are currently some issues with the budget for CPR & M and improvements are needed but the situation is being investigated and staff in Housing and Property Services and Finance are working closely together to implement the necessary improvements.

Risk

Ineffective budgetary control or disregard for the proper procedures creates unnecessary additional pressures, wastes staff time and may require the transfer of resources from other budgets.

Recommendation

Stricter control needs to be exercised over the Corporate Property Repair and Maintenance budget in order to avoid future overspends of the level encountered this year.

4.8 Schedule of rates

- 4.8.1 Some of the work under CPR&M is of a regular nature that will involve planned service and inspection visits and often call outs to remedy individual faults eg alarms, access controls, lighting, ventilation. This work is normally let and managed in a contract situation.

- 4.8.2 The day to day responsive repairs are in the main all carried out by one contractor who submitted a schedule of rates that was judged to offer the best value and service to the Council.
- 4.8.3 The present contractor is operating under a fairly short term contract (20 months) and there was no provision in it for rates to be reviewed during the course of it.
- 4.9 **Programmed works**
- 4.9.1 The overall CPR&M budget comprises responsive repairs and programmed works. Programmed jobs are normally let under the Code of Procurement Practice and the building surveyors are familiar with its requirements.
- 4.9.2 In the current climate there are very few programmed jobs due to take place and the only one of significance this year, the Newbold Comyn Leisure Centre flume replacement, was granted an exemption from the Code.
- 4.10 **Tenants' responsibilities for repairs**
- 4.10.1 The non-operational or investment corporate properties mainly comprise shops, offices and clubs, and the responsibilities for repairs are detailed in the terms and conditions in the lease.
- 4.10.2 In most cases the tenant is responsible for internal repairs and decorations, with the Council taking care of the outside.
- 4.10.3 Repair requests are normally directed in the first instance to the Estates Manager in Economic Development and Regeneration, who will refer them to a building surveyor in most cases.
- 4.10.4 Until recently the Valuation Office carried out inspections of non-operational properties to ensure that the terms and conditions of the lease were being complied with. This would have included an assessment of the state of the internal repairs but the service has been cancelled on the grounds of cost.
- 4.11 **Access to the repairs system**
- 4.11.1 Responsive repairs are all channelled through the Building Surveyors who will process the order through the repairs module of Active H. Other members of staff in Housing and Property Services can also raise orders if necessary. Building managers are not able to access ActiveH to raise their own orders.
- 4.11.2 A review is carried out annually of the users of Active H and their privileges. A Business Application audit of Active H is carried out periodically and this will include the appropriateness of access and privileges.

4.12 **Risk register**

- 4.12.1 There are numerous risks associated with corporate property such as funding, payment of rent, staffing, contractor availability, systems etc but they are generally not specific to corporate property and will apply equally to HRA property.
- 4.12.2 They are all included in the H & PS risk register but mainly under the activity heading "General".

5 CONCLUSION

- 5.1 The audit concluded that there are reasonable controls in place to manage CPR&M but that poor performance in budget management needs to be addressed in order to improve control.
- 5.2 The audit can therefore give a **MODERATE** level of assurance that the systems and procedures in place are appropriate and working effectively.

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