



INTERNAL AUDIT REPORT

TO: Head of Development Services **SUBJECT:** Corporate Property Portfolio Management

C.C.: Chief Executive
Deputy Chief Executive (BH)
Head of Finance
Economic Development and Regeneration Manager
Estates Manager **MY REF:** JK/PPM/JB

FROM: Audit & Risk Manager **DATE:** 31 December 2012

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 council's Corporate Property Portfolio; those properties that are classed as non-operational and held, in part, for investment purposes.
- 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 financial and management controls in place.
- 2.2 The audit programme identified the expected controls and the possible risks that might arise in the absence of those controls.
- 2.3 The controls examined were as follows:
- (a) Arrangements are in place for the overall strategic management of non-operational corporate property (NOCP).
 - (b) There is an accurate and up to date register or database of all NOCP.
 - (c) There is a policy on the types of lettings and uses for NOCP.
 - (d) There is a lease or licence for each letting and terms and conditions are adequately defined.
 - (e) Rents are set at market rates, reviewed, billed and monitored.

- (f) All properties are insured at current values and insurance is recharged where appropriate.
- (g) Any risks associated with NOCP are identified, recorded and managed.
- (h) Budgetary control procedures are in place and complied with.
- (i) Arrangements are in place to promote/market the availability of NOCP.

3. BACKGROUND

- 3.1 The council maintains a portfolio of NOCP for investment purposes. Most of it would have been acquired before 1974 and in some cases property would have been acquired in advance for capital schemes that never took place. For example, at one stage Hamilton Terrace was identified as a potential site for the replacement for the old Pump Rooms Swimming Pool.
- 3.2 Properties in the portfolio include shops, offices, clubhouses, take-aways and launderettes.
- 3.3 Properties are held by both the General Fund (GF) and the Housing Revenue Account (HRA). The HRA properties are nearly all shops that were built at the same time as the estates where they are located.
- 3.4 Responsibility for NOCP has moved between service areas on a number of occasions and currently sits with Economic Development and Regeneration within Development Services. The operational management of the properties is dealt with by the Estates Manager.
- 3.5 Rental income for GF properties in 2011/2012 was £603,000 and for HRA properties £336,000.

4. FINDINGS AND RECOMMENDATIONS

- 4.1 The findings and recommendations from the audit are listed below.
- 4.2 In overall terms the audit concluded that there are reasonable controls in place for the management of NOCP but certain aspects of the function are somewhat imprecise and confusing. That is not to say that there are areas of great concern but more a case of there needing to be some improvement in terms of clarity and consistency.
- 4.3 The findings and recommendations are as follows:
- 4.4 **Overall management of NOCP**
 - 4.4.1 Executive has recently approved the creation of a Limited Liability Partnership to assist the council's asset management. One of its purposes will be to help deliver the council's Asset Management Plan and Fit for the Future through the management of surplus assets.
 - 4.4.2 Currently the strategic direction for corporate property is driven by the Strategic Asset Group, a group comprising mainly Heads of Service.

4.4.3 At the day to day operational level there is an Estate Management Group consisting of officers from Economic Development and Regeneration, Legal, Finance and the Valuation Office. The group deals with such things as progress on current leases, rent arrears and issues relating to specific properties.

4.5 Accurate and up to date property details

4.5.1 Details of the NOCPs are held in a variety of sources including Active H, deeds and leases, income records, capital asset registers, insurance policies, etc.

4.5.2 As the records are held for different purposes they tend to stand alone and there is little cross matching to reconcile them against each other. That coupled with some uncertainty and lack of definition as to what constitutes NOCP means that there is a degree of uncertainty around the number of NOCPs and there is no definitive list.

4.5.3 Generally speaking people broadly know what the NOCPs are but there is a degree of blurring around certain properties e.g. cemetery lodges, some properties in open spaces, enterprise properties.

4.5.4 The issue has been recognised by the Economic Development and Regeneration Manager as an area that needs attention in order to achieve a greater degree of clarity and accountability.

4.5.5 Largely it is a question of tidying up and creating a better definition of NOCPs and formalising responsibility.

4.5.6 The situation does not represent a significant risk and there is no evidence that properties where a rental is charged are not recorded and managed appropriately.

4.6 Policy on lettings and usage

4.6.1 Historically there has been no need to adopt a formal policy on the letting and usage of properties.

4.6.2 A letting will be granted if there is appropriate planning consent in place, the proposed business or activity is legal and unlikely to embarrass the council and there is no conflict with neighbouring businesses or Council policies and objectives.

4.6.3 The use of the property will be detailed in the lease and any deviation from the intended use would have to be notified to the council either by a neighbouring business or on an ad hoc basis as there are no formal compliance inspections.

4.6.4 For a number of years the Valuation Office Agency (VOA) was engaged by the council to provide property services including inspections. On the grounds of cost the inspection aspect of their service has been cancelled.

4.6.5 Prospective tenants for vacant properties are vetted and have to provide personal, business and financial records.

4.7 There is a lease for each letting

4.7.1 The terms and conditions of a letting are contained in a lease that is signed by both parties and filed together with all supporting correspondence and records in the Deeds Store on level 1 of Riverside House.

4.7.2 Access to the Deeds Store is via a coded lock but it was not clear how many people have access or who has overall responsibility for the security and availability of the contents of the Deeds Store.

4.7.3 Any long term unavailability of any of the packets in the Deeds Store would be unwelcome but it would not present an insurmountable problem as all deeds and leases have been registered with the Land Registry.

4.7.4 There is a card system whereby somebody removing a packet or a file inserts a card with appropriate details into the gap created by what has been removed but no other signing in and out record.

4.7.5 The nature of any filing system is that it is fit for purpose when it is established and then falls into disarray over time. This was the case with the Deeds Store a few years ago and it drew an adverse comment in the Statement of Accounts. A lot of time and effort was put into correcting the problem.

4.7.6 Access to the Deeds Store is probably going to be needed fairly infrequently so it should be possible to arrange supervised access by a section close by e.g. the DMC, and to introduce a better signing in and out record.

Risk

The absence of overall responsibility for the Deeds Store and no real knowledge of who has access could result in records being misplaced and misfiled.

Recommendation

Consideration should be given to assigning responsibility for the Deeds Store to a specified officer or section and for them to provide supervised access and a more sophisticated document tracking system.

4.8 Rents are set at marked rates, reviewed, billed and monitored

4.8.1 Rents for properties are set at "open market rental value" at the beginning of a lease and then again at the review stage, if there is one.

4.8.2 Any rent review dates are included in the lease. The dates are included in the property details in Active H and review dates are diarised such that negotiations begin well in advance of the due date.

- 4.8.3 Initial rents or revised rents are based on knowledge of the market and advice from agents on comparable rents for similar properties.
- 4.8.4 Details of any new or revised rents are supplied to Legal for record purposes and to Finance for billing purposes.
- 4.8.5 Any non payment of rent is discussed at the monthly Estate Management Group and action is instigated if appropriate. Rent arrears for NOCPs is not a significant issue.

4.9 Properties are adequately insured and insurance is recharged

- 4.9.1 NOCP is insured as part of the Council's overall insurance cover but the property valuations have not been reviewed for a few years, again on the grounds of cost. This point has been raised as part of another audit and it is hoped that some risk management funds will be released to deal with the matter.
- 4.9.2 Recharging the cost of insurance to tenants is a confusing area that does need to be resolved. Without a detailed examination of the insurance position for each individual property it is impossible to say what the problem is.
- 4.9.3 What is clear is that the Council pays out more in insurance than it recovers. This is always likely to be the case as some tenants arrange their own insurance and some pay (or should pay) as part of a service charge.
- 4.9.4 The problem may be very minor but at this stage it is difficult to tell. What is certain is that the whole issue is untidy. Insurance is charged to a number of different cost centres and at least to Green Space Development, other Housing Property, Estate Management and Housing Supervision and Management.
- 4.9.5 In some cases, 37-41 Market Street, Warwick, for example, insurance is charged to Estate Management but the recharge is allocated to Housing Supervision and Management.
- 4.9.6 The whole question of insurance needs a thorough examination to ensure that all tenants are paying insurance where appropriate and that all costs and income are allocated correctly.

Risks

Tenants may not be paying insurance appropriately.

Costs are not properly recorded in the accounts.

Recommendation

A detailed examination of the insurance situation for all NOCPs should be undertaken to ensure that it is being charged, recharged and allocated appropriately and correctly.

4.10 Risks are managed

- 4.10.1 The risk identified in the Development Services risk register relating to NOCPs is "not realising full value from assets" with the cause being "ineffective management of non operational assets".
- 4.10.2 In addition the Economic Development and Regeneration Manager has identified a situation that is not uncommon in other parts of the council. A lot of detailed knowledge about the operational management processes involved with NOCP and the history of individual properties is known only to the Estates Manager so there could be a problem in the case of any long term absence. Action will be taken to reduce the risk.

4.11 Budgetary control

- 4.11.1 The budgetary aspect of NOCP is like other aspects of the subject, somewhat fragmented. The Estates Manager is responsible for the letting of both GF and HRA properties but only responsible for some of the GF budgets. The Head of Housing and Property Services is responsible for the income from HRA properties.
- 4.11.2 The Estates Manager is also not responsible for the income for properties in the Green Space Development cost centre. However, all arrears are considered by the Estate Management Group.

4.12 Promotion and marketing of properties

- 4.12.1 Each time that an NOCP becomes vacant a number of local agents are contacted and one is selected to deal with the marketing of the property on a case by case basis. Whenever possible a "to let" board is sited in the proximity of a relevant property and all necessary contact details are provided.

5. CONCLUSIONS

- 5.1 The audit concluded that there are reasonable controls in place to manage NOCP but there is a certain lack of clarity and consistency in some areas that 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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