

29 September 2016		ITEM: 9
Standards and Audit Committee		
Internal Audit Report – Acquisition and Disposal of Land and Buildings (excluding Council Houses)		
Wards and communities affected: All	Key Decision: Non-key	
Report of: Matthew Essex, Head of Regeneration & Assets		
Accountable Head of Service: Matthew Essex, Head of Regeneration & Assets		
Accountable Director: Steve Cox, Corporate Director Environment & Place		
This report is public		

Executive Summary

An audit of the acquisition and disposal of land and buildings (excluding Council houses) was undertaken as part of the approved 2016/17 internal audit programme. The audit concentrated on the acquisition and disposal of assets from March 2012 up until March/April 2016 during which time there were 30 individual transactions.

The audit reported its findings in June 2016 and identified a number of shortcomings in the governance, management and monitoring of land and property acquisition and disposals across both the General Fund and HRA. The audit ultimately rated the controls of acquisition and disposal activity as high risk and concluded that the Council could not 'take assurance that the controls on which it relies to manage the risk(s) are suitably designed, consistently applied or effective'.

Given the increasingly important part that the management of the Council's asset base will play in enhancing the Council's service offer, generating income and supporting the delivery of the wider placemaking agenda it is clear that these shortcomings need to be addressed.

This report outlines the background and findings of the Internal Audit and sets out an action plan developed in response to the issues identified. The recommendations made through the audit have been accepted in full and the action plan records the significant progress which has already been made in implementing new governance and management arrangements as well as the changes to internal processes which will be used in future to ensure that there is no repeat of the identified failings.

1. Recommendation(s)

1.1 Members are asked to note the findings of the Internal Audit report and consider the sufficiency of the measures which have been put in place through the action plan to address the identified shortcomings.

2. Introduction and Background

2.1 The Council has a wide-ranging asset portfolio which comprises housing stock and other assets of various sizes and types ranging from individual plots of land, dwellings, shops, school buildings, offices and industrial units to cemeteries, playing fields, adventure playgrounds, public conveniences, depots, community halls etc. As at 31st March 2016, the total value of Council owned assets stood at approximately £840 million.

2.2 The Council manages its asset base in a range of ways. Parks/playing fields and the like and HRA owned property benefit from dedicated management arrangements through the Council's Environment and Housing Services departments respectively. However, the remaining assets have variously been managed within services (where linked to operational service delivery) or through the Council's assets service. As a result, a range of different asset management approaches have developed which are very much dependent on the skills and capacity of the staff within the various parts of the authority and respond largely to the motivations/drivers within each of those areas.

2.3 Through the course of its normal business, the Council will have reason to acquire and dispose of property. Within the four years reviewed through the Internal Audit there were 30 individual transactions which included disposals of surplus assets to meet income targets set within the Medium Term Financial Strategy (MTFS), disposals to support third party service delivery, acquisitions through the HRA to support housing development proposals and acquisitions through the General Fund to support the delivery of the Purfleet Centre proposals. All of the transactions were conducted through whatever processes and governance structures had been established within each of the areas leading on the transactions at the time.

2.4 It should be noted that the period in question would have seen more acquisition and disposal activity than previous years. The number of disposals should reduce following the removal of a capital receipt target from the MTFS. However, the increased acquisition activity in support of the housing development and Purfleet Centre programmes is likely to continue to grow as the Council brings forward proposals in Grays South alongside the ongoing Purfleet Centre and housing development programmes.

2.5 The audit of the acquisition and disposal of land and buildings (excluding Council houses) was undertaken as part of the approved 2016/17 internal audit programme. The audit reported its findings in June 2016 and identified a number of shortcomings in the governance, management and monitoring of land and property acquisition and disposals across both the General Fund and HRA. The audit ultimately rated the controls of acquisition and disposal

activity as high risk and concluded that the Council could not 'take assurance that the controls on which it relies to manage the risk(s) are suitably designed, consistently applied or effective'.

3. Issues, Options and Analysis of Options

- 3.1 As is noted above, the audit considered all of the 30 transactions carried out over the four year period. Observations were raised in respect of 15 of those transactions which were split between disposals of General Fund activity and acquisitions through the HRA. 10 acquisitions conducted through the General Fund, cumulatively valued at around £1.5m, in support of the delivery of the Purfleet Centre proposals were considered with no concerns raised.
- 3.2 Three specific risks were identified through the audit:
- i. There may not be a record in the asset register of any acquisition or disposal of buildings and land;
 - ii. The acquisition of property may not have been part of an overall strategic plan for the organisation's needs, may not have been handled properly and may have resulted in financial loss; and
 - iii. Property disposed of may not have been identified as surplus and the best possible price may not have been obtained on the open market.
- 3.3 The most common issue identified within the audit, which is reflected in each of the specific risks, was in respect of document management/retention with a number of instances where files were incomplete and evidence was unavailable to confirm whether or not the Council had achieved best value. Of particular concern was the lack of consistently available independent valuation advice to back up the values that property was sold or acquired at.
- 3.4 Whilst it should be acknowledged that the Council employs a number of qualified surveyors who are able to assess the value of land and property it is acknowledged that they were not always called upon and, in any event, a full record of the assessment of value (however calculated) should be retained on file. Various reasons were identified for the failure to retain documents including staff turnover, the use and management of consultants – particularly with respect to the acquisitions through the HRA – failure to exercise the anticipated level of document control and insufficient application of established approval processes.
- 3.5 A high level review of the various matters identified through the audit has subsequently been conducted to revisit the values that property was sold or acquired at. This has not identified any areas of significant concern that would suggest that the Council has demonstrably failed to achieve value for money.
- 3.6 The audit made four specific recommendations to address the issues that had been identified including establishing a Corporate Landlord function, reviewing governance and management relationships, updating the Council's Asset Management Strategy and reviewing the disposals process. All of these

recommendations have been fully accepted and work is underway to address these points. In some cases, the relevant actions have already been undertaken and new arrangements implemented. An action plan is attached at Appendix One which details the recommendations made, the actions which it is proposed are taken and the progress to date in their implementation.

- 3.7 The most significant changes are the establishment of a Corporate Property Board, chaired by the Director of Finance and IT and supported by the Head of Regeneration and Assets who will now oversee all asset/property related dealings across the Council together with a clear commitment to move to a Corporate Landlord model. Under this arrangement, all operational and investment land and property (excluding parks and HRA owned property) will be managed through a single department so that a common approach to letting, licensing, acquisitions, sales and management can be applied.

4. Reasons for Recommendation

- 4.1 Under the Council's internal audit process, members of the Standards and Audit Committee are required to review any 'red rated' audit findings and consider the effectiveness of the measures identified to respond to the recommendations made as a result of the issues identified.

5. Consultation (including Overview and Scrutiny, if applicable)

- 5.1 N/A

6. Impact on corporate policies, priorities, performance and community impact

- 6.1 As a significant owner of property within the Borough, it is critical that the Council has effective plans in place for its management and use and is able to maximise the benefit of its portfolio in either service delivery or financial terms. The issues identified within the internal audit rightly raise concerns on the Council's historic approach to the management of its portfolio and, specifically, the conduct of disposals and acquisitions. The arrangements that have been put in place in response to the audit's findings are considered to be an appropriately robust change in approach which will secure the anticipated benefit in the future.

7. Implications

7.1 Financial

Implications verified by: **Carl Tomlinson**
Finance Manager

The Council continues to operate in challenging financial conditions and effective asset management can only strengthen the Council's financial standing. Strategically utilising the asset base to generate income, realise capital receipts, create investment opportunities and unlock added value is an essential part of managing ongoing financial pressures. The Internal Audit report identified a number of recommendations in respect of the acquisition and disposal process and the report sets out actions to address the shortcomings.

7.2 Legal

Implications verified by: **Vivien Williams**
Planning and Regeneration Solicitor

Local authority information on land and property assets in its ownership should be open and transparent. Every disposal of surplus land or property should have clear objectives from the outset; help deliver local planning objectives; use land as efficiently as possible and ensure the best possible return. Local authorities in disposing of surplus land and property must have regard to the requirements of Circular 06/03. Disposals at less than best consideration may be justified in certain circumstances where it is crucial that a local authority in meeting its legal obligations is able to demonstrate that a consistent, transparent and well structured approach has been taken and that value for money will be obtained.

7.3 Diversity and Equality

Implications verified by: **Natalie Warren**
Community Development Manager

Council assets play a key role in ensuring that services meet the needs of local residents, as well as provide opportunity for growth and cohesion. The action plan will strengthen Council's ability to take a strategic approach to its asset base. Decisions relating to assets will be informed by a community and equality impact assessments through the proposed governance arrangements.

7.4 Other implications (where significant) – i.e. Staff, Health, Sustainability, Crime and Disorder)

None

8. Background papers used in preparing the report (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- None

9. Appendices to the report

- Appendix One – Action Plan

Report Author:

Matthew Essex

Head of Regeneration and Assets

Environment and Place

Appendix One – Action Plan

Ref	Recommendation	Risk Rating	Agreed (Y/N)	Management Action to address recommendations	Completion Date	Responsible Person
1.1	It is recommended that the Corporate Landlord model is further investigated and a project board is set up to look at the best model for Thurrock and how it can be rolled out across the authority i.e. management role, consultancy role etc. At this initial stage, housing stock should be exempted from this process as they are managed and maintained as part of the Housing Service Plan. The board should have representatives from all departments that manage their own assets and the Senior Financial Accountant responsible for capital and assets. It should be chaired by the Head of Regeneration & Assets. This approach will ensure all stakeholders are represented and signed up to driving forward the Council's Asset Management Strategy and Delivery Plan.	Medium	Y	<p>A proposal was signed off by DB in March 2016 to move all operational Council property (excluding HRA properties and Parks) into a Corporate Landlord model.</p> <p>Transfer of the first tranche of property (libraries) has been completed and work on the next tranche (children's centres) is well advanced with a transfer imminent.</p> <p>Corporate Property Board, chaired by s151 officer, has been established and is meeting monthly. Terms of Reference include property management, strategy development and supporting Corporate Landlord function.</p>	<p>Transfer of properties into Corporate Landlord complete end March 2017</p> <p>Corporate Property Board established July 2016.</p>	Head of Regeneration & Assets/ Corporate Property Manager
2.1	To ensure that the Council has received good value when acquiring land/property to meet its strategic needs, management must ensure that staff and consultants are properly supervised and all documentation	High	Y	Issue straddles HRA and General Fund. Move to the Corporate Landlord will address the issues in respect of the General Fund however	Completed.	Head of Regeneration and Assets

Appendix One – Action Plan

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	relating to their work is retained by the Council. This helps to ensure that relevant standards, policies and procedures are being met and the process is open and transparent.			<p>issues may remain within the HRA.</p> <p>Housing Development Structure has been completely reviewed with a new Team Manager appointed (started July 2016) reporting to the Head of Regeneration & Assets.</p> <p>Processes have been reviewed and documentation requirements updated to ensure that complete record is maintained.</p>		
2.2	It is recommended that the Asset Management Strategy and Plan are reviewed and updated on an annual basis to reflect changes in respect of economic, social, legal and environmental issues that impact on the Council. This will reduce the likelihood that assets are not being utilised in the most effective way to support the Council with its short, medium and long term financial planning.	Medium	Y	<p>Restructuring of the Corporate Property Team is underway to ensure that sufficient capacity and skills exist to support the Corporate Landlord function. This should be completed by the end of September 2016 (subject to any recruitment activity).</p> <p>Once the new structure is</p>	End March 2017	Corporate Property Manager

Appendix One – Action Plan

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				implemented, work will begin on developing the revised Asset Strategy. This will be overseen and ultimately owned by the Corporate Property Board.		
3.1	<p>It is recommended that a fundamental review of the process for disposing of properties is undertaken. The lack of documentation around some disposals meant we were unable to provide assurance that best value had been obtained. The review would also need to address the following issues raised during the internal audit:</p> <ul style="list-style-type: none"> • Valuation advice must be obtained in all cases, from a suitably qualified internal or external Valuer, who has sufficient current local and national knowledge of the relevant market. • Managers must ensure all relevant information is filed and retained to evidence the decisions made. • Cabinet approval should be obtained in advance of a property being sold. • Evidence should be obtained to support any sale where the market value is not being achieved. 	High	Y	<p>The issues identified result from factors including staff turnover, poor management of consultants, failure to exercise document control and insufficient application of established processes.</p> <p>The response to the issues needs to come from the whole organisation including Corporate Property, Legal Services and Finance.</p> <p>Processes for the valuation, approval and documentation of disposal processes will be immediately reviewed to ensure that an appropriate system exists to evidence the various stages followed.</p>	<p>Immediate review of procedures complete</p> <p>Ongoing monitoring required to ensure compliance</p>	Head of Regeneration & Assets with Legal Services

Appendix One – Action Plan