

Internal Audit report – Commercial Assets

Audit Committee

Date: 6 February 2018

Author: Head of Internal Audit

Wards: None

Parishes Affected: None

1. Purpose and Reasons

- 1.1 To present Members with a summary of the main issues arising from the Internal Audit reports finalised since the Audit Committee meeting in November 2017, to update Members with regard to progress against the annual internal audit plan and other key issues.
- 1.2 The Council's Audit Committee has a strategic role to ensure that the Council's assurance framework is operating effectively. To this end it should seek assurance that key areas that contribute to this framework are operating properly.
- 1.3 The Council's Internal Audit section is a key component of the assurance framework and therefore it is essential that this Committee monitor its performance against the annual plan along with the implementation of agreed recommendations by Client departments.

2. Recommendations

The Committee is recommended to:

- 2.1 It is recommended that Audit Committee note the report.

3. Detail

Background

- 3.1 The economic pressure on the public finances has focused greater attention on public sector property asset portfolios. The Council is subject to significant financial pressures over the forthcoming years and it is therefore important that it makes the best use of its existing assets and reassesses income earning opportunities from the commercial estate to generate additional income and investment value.
- 3.2 The Council's commercial property portfolio is currently valued at £42m and produces a gross annual revenue income of just under £3.7m and this income is used to support the delivery of Council Services. In December 2016, Cabinet approved the creation of a Commercial Investment Fund of £50m to support economic growth and generate sustainable income.
- 3.3 The objective of the Internal Audit review was to provide assurance that the Council's strategy for non-operational/commercial property investment is up to date, reflects best practice and provides a clear direction to achieve the Council's

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goals for commercial assets. An assessment of how well the existing commercial property portfolio was being managed was also conducted.

Key findings

- 3.4 The audit was conducted after the December 2016 Cabinet meeting where the Corporate Investment Strategy was approved and the supporting governance arrangements were being developed. The processes proposed for the consideration of investment opportunities appear reasonable but could not be tested.
- 3.5 Whilst it is acknowledged that the primary purpose of the Commercial Investment Strategy and the role of commercial assets is to generate income, it is important that, where possible, Council assets also support the delivery of other strategies. Currently, the Commercial Investment Strategy does not refer to links to other strategies or plans resulting in a risk of duplication or conflict with other priorities.
- 3.6 The management of the existing commercial asset portfolio is carried out by a core of experienced officers. Processes and procedures have developed over time and in response to requirements of the Council. In the 2000s, the focus for the Property Team was on generating capital receipts and consequently a significant number of commercial property assets were sold to raise approximately £40m in capital receipts. This naturally resulted in a scaling down of the management of these assets and processes were not developed further. The service acknowledges that they now need to develop their commercial asset provision to respond to the new focus on widening the property portfolio in order to generate additional income.
- 3.7 Currently, detailed performance information is not currently collated, reviewed and compared to determine whether the property portfolio is performing as expected or to identify areas for improvement. No performance indicators have been identified and benchmarking is not conducted.
- 3.8 Recommendations made in this report have been made in response to weaknesses in procedures identified during the audit and with reference to good practice identified through research and reference to national studies.
- 3.9 The Internal Audit report was issued in draft early in 2017/18 but took some time to clear due to changes in senior staff i.e. Interim Director of Resources and the Corporate Director: Economy, Regeneration and Skills. The report was finalised in October 2017 and is attached as Appendix 1.
- 3.10 An updated management response has also been provided setting out action taken to implement agreed audit recommendations (see Appendix 2). The Corporate Director: Resources and Growth and the Head of Property Assets will be at Audit Committee to answer any questions that Members may have.

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4. Alternative Options

4.1 Not applicable

5. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

5.1 There are no direct financial implications arising from this report.

Legal and Human Rights Implications

5.2 Internal Audit is a statutory requirement of the Accounts and Audit Regulations 2015. The Internal Audit service also provides assurance to the Director of Finance regarding the requirements of Section 151 of the Local Government Act 1972.

All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

5.3 None

Diversity Impact Assessment

5.4 None

Risk Management

5.5 Potential risks to the Council are identified in the individual audit report attached as Appendix 1.

6. Consultees

6.1 The Director of Finance (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

6.2 The following officers were consulted on the Internal Audit report attached:

Corporate Director: Resources and Growth; Head of Property Assets;
Regeneration and Projects Officer: Economy and Skills; Head of Finance –
Deputy Section 151 Officer

7. Background Papers

7.1 None

8. Appendices

8.1 Appendix 1: Internal Audit Report – Commercial Assets

Appendix 2: Updated Management response re. Internal Audit recommendations

Further information on the subject of this report can be obtained from Nick Hobbs,
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