



**Commercial Property  
Assets**

**October 2017  
(Final)**

**Swindon Internal Audit Services: Commercial Assets****Contents and Distribution****Contents**

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**Report Distribution – Final Report issued on 31<sup>st</sup> October 2017<sup>1</sup> to:**

Corporate Director: Resources and Growth  
Head of Property Assets  
Regeneration and Projects Officer: Economy and Skills  
Head of Finance: Economy

**Auditor:**

Principal Auditor

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<sup>1</sup> Note – Initial Draft Report issued 10/3/17

## Swindon Internal Audit Services: Commercial Assets

### Executive Summary

#### Background

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.

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.

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

#### Audit Opinion

The opinion on the current controls in place is that there are a number of significant improvements required to ensure the Council's commercial assets are managed effectively. The combination of the high impact of the system, along with the opinion on the system controls gives an overall risk assessment to the Council as being **of concern**.

#### Key Messages

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.

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.

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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.

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.

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.

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### Context

The Council's Property Strategy acknowledges that the property and land held by the Council is a significant resource, which is essential for the provision of the vast majority of Council services.

As central government funding falls, councils are making the most of the opportunity afforded by low interest rates to reassess their property portfolios in order to work towards financial self-sufficiency by maximising the income they get from their investments. With central government grants due to be all but phased out by 2020, councils will be forced to rely increasingly heavily on local sources of funding. Smart investments, for instance in commercial property, can sometimes generate enough revenue for the council to service its debt and retain a surplus to fund public services, while also having the potential to encourage the growth of local business. At a time when rates are at a historic low, councils are looking to borrow for investment, as long as this investment is profitable, fits within the framework of the council's social goals, and is subject to proper risk management to ensure that the public does not have to bear unsustainable revenue costs to service the debt.

Corporate responsibility for the asset management strategy generally, including that for the commercial portfolio, rests with the Cabinet Member for Finance and Corporate Services. In so doing, the portfolio's management is directly linked to the objective of ensuring sound business planning and financial probity within the Council. The strategic and operational management of the estate falls under the responsibility of the Corporate Director of Economy, Regeneration and Skills and the Head of Property. The portfolio is managed in-house by Property Services, a team of Chartered Surveyors, plus administrative and business support.

### Risk Areas Examined and Findings

In accordance with best practice, a risk-based approach was adopted that identified the key risks to the business objectives and those mitigating actions/controls that should be in place. The Auditor then assessed the effectiveness of the mitigating controls through examination of relevant documents, procedures and detailed testing.

The key risks to the achievement of the business objectives were discussed and agreed with the Corporate Director: Economy, Regeneration and Skills before the commencement of the audit. The table below summarises the Risk Areas examined during the review and provides an assessment of the adequacy of controls in place for each area of risk examined:

<i><b>Risk Area Examined and Findings</b></i>	<i><b>Audit Conclusion</b></i>
<p><b>Risk: Strategy and Policy</b></p> <ul style="list-style-type: none"> <li>A Property Strategy was approved by Cabinet on 15.12.15 and this was updated in a Resources Overview and Scrutiny Committee Report in 19.3.15. This sets out the purpose of the portfolio of non-operational property and the objectives and general direction of the property base.</li> </ul>	<p><b>Significant improvements required</b></p>

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Risk Area Examined and Findings	Audit Conclusion
<ul style="list-style-type: none"> <li>• An Asset Management Strategy and Asset Management Plan have not yet been devised.</li> <li>• The Draft Budget and Medium Term Resource Plan for 2017/18, taken to Cabinet in October 2016 notes the Council's response to its financial context will include exploring opportunities to maximise its assets by becoming more commercial.</li> <li>• The Commercial Investment Strategy, which includes commercial property investment, is not linked to other relevant Council strategies or plans, such as the Economic Strategy or Local Plan.</li> <li>• Risk registers are not in place for asset management or commercial assets, including investment.</li> <li>• A medium term forward plan has not been prepared for the investment strategy.</li> </ul>	
<p><b>Risk: Processes</b></p> <ul style="list-style-type: none"> <li>• Staff working in Property Services have a significant amount of knowledge of the Council's commercial assets and the property sector in the borough.</li> <li>• Processes to support the Commercial Investment Strategy have not yet been established and consequently it is too early to give an opinion on their effectiveness.</li> <li>• Actions have been identified in the Strategy which need to be actioned in order to ensure that appropriate governance arrangements are in place and the risks associated with commercial investments are mitigated, where possible.</li> </ul>	<p><b>Significant improvements required</b></p>
<p><b>Risk: Portfolio Management</b></p> <ul style="list-style-type: none"> <li>• A detailed analysis of the existing commercial asset portfolio has not been conducted to identify and classify their performance, potential and fit with the Commercial Investment Strategy.</li> <li>• The costs associated with the commercial asset portfolio are not calculated and used to assess the net income derived. It is therefore likely that income is overstated and decisions on future investments may not be fully informed.</li> <li>• Performance indicators have not been defined for Commercial Assets and the performance of the portfolio is not reported. Consequently it is not possible to assess whether income is maximised or whether performance is being managed effectively.</li> <li>• Benchmarking of commercial assets is not conducted to identify and apply best practices from industry and government to improve the performance of the Council's commercial assets.</li> <li>• A review of the data management systems used to record commercial properties, values and lease details should be conducted as the current arrangements do not allow for timely and accurate reporting.</li> </ul>	<p><b>Significant improvements required</b></p>

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### Overall Opinion

**Materiality and Impact: High.** The Council is subject to significant financial pressures over forthcoming years. Consequently it is important that the Council makes the best use of its existing assets and re-assesses income earning opportunities from the let estate to generate additional income and investment value. The Council's portfolio of non-operational property is valued at approximately £42m and includes 188 assets including retail, office and industrial premises and a 2,000 acre agricultural estate. These assets produce nearly £3.7m gross of revenue income to supplement the Council's plans.

**Opinion on system controls: Significant improvements required** (see Appendix A) i.e. the Auditor completing the review concluded that existing procedures needed to be improved to ensure that they are fully reliable. A number of significant recommendations have been made to improve missing or failing controls.

**Overall Assessment of Risk:** the combination of the medium impact of the system, along with the opinion on the system controls gives an overall risk assessment to the Council as being **of concern**:

		MATERIALITY AND IMPACT		
SYSTEM CONTROL		High	Medium	Low
1	High standard	Moderate	Minimal	Minimal
2	Satisfactory	Moderate	Moderate	Minimal
3	Significant improvements required	Of concern	Moderate	Moderate
4	Fundamental weaknesses identified	Significant	Of concern	Moderate

## Swindon Internal Audit Services: Commercial Assets

### Action Plan

The purpose of this action plan is to provide a summary of the matters arising during the audit of Commercial Assets, together with the recommendations to mitigate risks, the response to the recommendations, along with the officer responsible and timescale for implementation. In order for you to identify the most significant matters arising, which affect the reliance that can be placed on the controls reviewed, the recommendations have been prioritised.

Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
<b>1</b>	<b><i>Risk: Strategy and Policy</i></b>			
1.1	<p>A Property Strategy was approved by Cabinet on 15.12.15 and this was updated in a Resources Overview and Scrutiny Committee Report in 19.3.15.</p> <p>This sets out the purpose of the portfolio of non-operational property and the objectives and general direction of the property base.</p> <p>The Council does not have an Asset Management Strategy or Asset Management Plan, therefore it is not possible to determine how the Property Strategy supports the delivery of the Council's overall objectives.</p>	<p>An Asset Management Strategy and Asset Management Plan should be devised detailing the long term approach to management of the assets, derived from, and consistent with, the Council's overall corporate objectives.</p> <p><b>Priority: Medium</b></p>	<p>Head of Property Assets</p> <p>February 2018</p>	Agreed

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Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
<b>1</b>	<b><i>Risk: Strategy and Policy</i></b>			
1.2	<p>A Commercial Investment Strategy has been devised which was approved at the December 2016 Cabinet Meeting.</p> <p>The Cabinet report notes that the Strategy will support the three themes set out in the 2016/17 Budget Management, 2017/18 Draft Budget and Medium Term Resourcing Plan to respond to the financial challenges reported to Cabinet in October 2016.</p> <p>It does not, however, refer to links between any other relevant strategies or policies, such as the Economic Strategy, Local Plan or Commercialisation Strategy.</p>	<p>Links between the Commercial Investment Strategy and other relevant Council strategies and plans should be identified and reviewed to ensure they do not conflict.</p> <p><b>Priority: High</b></p>	<p>Corporate Director: Resources and Growth</p> <p>February 2018</p>	Agreed
1.3	<p>The Commercial Investment Strategy report identified specific mitigation measures with regard to the risks associated with commercial property investments. However a risk register is not in place for property assets in general.</p> <p>General risks can include a fall in capital and rental values, tenants defaulting and an increase in financing costs. All these factors could have an impact on the net return to the Council.</p> <p>The 2016/17 Business Plan for Property notes that '<i>Commercial rental income has been maintained in line with budget targets but there is an ongoing challenge to maintain rent levels due to the higher rental assets becoming obsolete and the risk of tenant failure</i>'.</p>	<p>A risk management process should be introduced to the property assets function to ensure there is informed decision making.</p> <p>This should include production and regular review of a property assets risk register, identification of mitigating actions and a review to ensure they effectively address the risks identified. Relevant risks should be escalated to the economy risk register to be reviewed at SMT meetings.</p> <p><b>Priority: High</b></p>	<p>Head of Property Assets</p> <p>February 2018</p>	Agreed – This will be linked with 1.1 above.

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Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
<b>1</b>	<b><i>Risk: Strategy and Policy</i></b>			
1.4	<p>Throughout the audit, officers stated that the purpose of the Commercial Investment Strategy was purely to generate income to help deliver long-term financial resilience.</p> <p>It is understood that additional income targets have been set for commercial property assets of £0.5m per annum from 2017/18 for the next three years.</p> <p>Aside from this annual additional income target, the longer term ambitions for commercial assets have not been defined.</p> <p>Since the income target was set, one acquisition has been made, Delta 900, at a cost of £3.55m and which would result in an annual net increase in income of £71,536, once the borrowing costs are deducted. In the short term, while the acquisition is funded from existing balances, the annual surplus will increase to £180,141.</p> <p>The recent disposal of the Bus Depot will reduce the annual rental income by £293,000.</p> <p>There is a risk that the 2017/18 income target may not be achieved.</p> <p>It is not clear how the £0.5m income target was set, however the Head of Property Assets estimates that investment of approximately £100m would be needed in order to generate this amount of additional income, net of costs.</p>	<p>The longer term ambitions for commercial assets should be determined and documented.</p> <p>In their report published in September 2016, the NLGN<sup>2</sup> recommended that <i>'investment strategies must balance ambition with prudence - councils should publish a 25 year forward view of their investment strategies showing how they have managed risk and demonstrating that they have not committed local taxpayers to unacceptably high levels of risky debt. This should include modelling for a post Brexit downturn'</i>.</p> <p>The income target for property assets should be clearly calculated to ensure that it is understood and based on realistic expectations.</p> <p>Commercial asset actual income generation vs estimates should be reported monthly, taking into account the long term effect of acquisitions and disposals.</p> <p><b>Priority: High</b></p>	<p>Head of Property Assets</p> <p>February 2018</p>	<p>Agreed – this will link to the MTRP which now has a 4 year income strategy.</p>

<sup>2</sup>NLGN – New Local Government Network – Securing a Resilient Future: Capital Spending for Social Value (September 2016)

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Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
<b>2</b>	<b><i>Risk: Processes</i></b>			
2.1	<p>It is too early to assess whether the planned approach to identifying and responding to investment opportunities is comprehensive whilst allowing officers to respond quickly. However, the details contained within the Cabinet report seem reasonable and reflect the approaches found at other local authorities.</p> <p>A number of further actions were identified in the report that need to be actioned in order to ensure appropriate governance arrangements are in place for future investment opportunities and the risks associated with commercial investments are mitigated, where possible.</p> <p>These actions are in development and need to be completed as soon as possible.</p>	<p>As is planned, the following should be devised:</p> <ul style="list-style-type: none"> <li>• Commercial Investment Strategy Board and Terms of Reference</li> <li>• Property Investment Strategy</li> <li>• Investment and Appraisal Criteria (See Appendix C for examples found during the audit). This should include a risk assessment for each potential investment.</li> <li>• Target rate of return which is consistent with the assumptions made in the MTRP</li> <li>• A definition of what 'good' is in relation to the type of asset, location and tenant.</li> <li>• The level at which a cap on the percentage of income that is derived from a single organisation or tenant is set and a cap on the single asset value as a percentage of gross asset value.</li> <li>• The appointment of investment advisors.</li> </ul> <p><b>Priority: High</b></p>	<p>Head of Property Assets December 2017</p>	<p>Agreed – the actions listed in the recommendations have commenced.</p>

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Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
<b>3</b>	<b><i>Risk: Portfolio Management</i></b>			
3.1	<p>As part of the drafting of the Commercial Investment Strategy Cabinet Report in December 2016, a summary of the current asset value of each asset category was prepared along with their respective current rental income and gross yield.</p> <p>This information was not included in the final report but does provide some general performance information. Based on this information, it was concluded by the Regeneration and Projects Officer that the overall rate of return from the existing estate of investment properties was 8.8% and considered to be healthy.</p> <p>It was noted that the portfolio is quite heavily reliant on the ground rent portfolio to reduce risk exposure and that the industrial sector is under represented.</p> <p>Aside from this analysis, there is no other information collated regularly on the makeup of the portfolio.</p> <p>Consequently it is not possible to confirm that the commercial asset portfolio is being proactively managed.</p>	<p>A review of the existing commercial portfolio should be formally conducted to consider:</p> <ul style="list-style-type: none"> <li>• The composition of the Council's portfolio</li> <li>• A review of types of assets and their potential</li> <li>• The Council's key corporate plan objectives and how they link to the property portfolio</li> <li>• Areas for potential change and development of the property portfolio</li> <li>• The risk of existing tenancies.</li> </ul> <p>Following this review, a gap analysis of the commercial assets portfolio should be conducted in order to inform the Council's Property Investment Strategy (see AP 2.1 above).</p> <p>Consideration should be given as to whether the following Guiding Principles<sup>3</sup> are appropriate:</p> <ul style="list-style-type: none"> <li>• To create a portfolio that minimises management costs and resources</li> <li>• To increase returns and create higher gross income</li> <li>• To ensure that the Council is not exposed to unduly high risk</li> <li>• To create a portfolio that is focussed on long-term sustainable performance and will have fewer assets but with good prospects for long-term growth</li> <li>• To dispose of assets which are underperforming, have limited potential for rental or value growth, or are likely to have disproportionately high resource implications.</li> </ul> <p><b>Priority: High</b></p>	<p>Head of Property Assets</p> <p>February 2018</p>	<p>Agreed – this information will be used to inform the development of the Asset Management Strategy and Plan referred to in 1.1 above.</p>

<sup>3</sup> These Guiding Principles were taken from a 2014 report produced by Montague Evans where they were commissioned by Rushmoor Borough Council to assess the health of its property portfolio and to provide advice on the Council's approach to investment properties.

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Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
<b>3</b>	<b><i>Risk: Portfolio Management</i></b>			
3.2	<p>The operating costs of the Council's commercial assets have not been calculated.</p> <p>It has also not been possible to obtain clear details of the following:</p> <ul style="list-style-type: none"> <li>• Rent Arrears and bad debts</li> <li>• Voids</li> <li>• NNDR liability</li> <li>• Staffing costs</li> <li>• Overheads</li> <li>• Repairs and Maintenance</li> <li>• Backlog maintenance</li> <li>• Opportunity Costs</li> <li>• Legal costs</li> </ul> <p>As a result, the financial performance of the commercial property portfolio and the returns made from investment may be being overstated.</p> <p>For example, a report was produced on 14/2/17 of all outstanding debts which have been raised under the transaction for Commercial Rent and are more than 30 days overdue. The total outstanding debt was £715,407.36 with £101,572.52 of this identified for write off (19.4% and 2.8% of annual gross rental income respectively).</p> <p>In addition, without details of these costs it is not possible to properly assess market risk and opportunities to make informed decisions about the future of the portfolio. It is also difficult to compare the performance of the portfolio against other forms of investment.</p>	<p>When calculating the financial performance of the commercial property portfolio all operating costs should be identified and accounted for.</p> <p>Once these costs have been calculated they should be compared to other local authorities to determine whether they are reasonable.</p> <p><b>Priority: High</b></p>	<p>Head of Property Assets</p> <p>December 2017</p>	<p>Agreed – operating costs need to be understood in order to report accurately on the performance of the portfolio.</p>

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Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
<b>3</b>	<b><i>Risk: Portfolio Management</i></b>			
3.3	<p>Performance of the Council's commercial assets are not benchmarked.</p> <p>Officers explained that this may not be beneficial due to differing market factors in other local authorities which would make it difficult to properly compare.</p>	<p>Benchmarking should be conducted to identify and apply best practices from industry and government to improve the performance of the property assets and services.</p> <p>The 2015-16 CIPFA Benchmarking Property Services Value for Money Exercise used the following to compare the management of investment property:</p> <ul style="list-style-type: none"> <li>• Total Income from Investment Property</li> <li>• Total Cost of the Management of Tenanted Non-Residential Property – Investment Property</li> <li>• Total Cost to Income Ratio</li> <li>• Average Cost of Management Per Asset</li> <li>• Average Income per Asset</li> <li>• Average Income per m2</li> <li>• Number of staff FTE engaged on the Management of Tenanted Non-Residential Property - Investment Property</li> <li>• Average Salary per FTE engaged on the Management of Tenanted Non-Residential Property - Investment Property</li> </ul> <p><b>Priority: Medium</b></p>	<p>Head of Property Assets</p> <p>February 2018</p>	<p>Agreed</p>

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Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
<b>3</b>	<b><i>Risk: Portfolio Management</i></b>			
3.4	<p>Aside from the additional income target set for commercial assets, referred to in AP 1.4 above, there are no set performance indicators for the service.</p> <p>The 2016/17 Business Plan for Property includes the following actions to improve performance in the next two years:</p> <ul style="list-style-type: none"> <li>• A restructure has been completed to maximise the commercial return from non-operational assets and improving the use of data to help inform decision making.</li> <li>• Support has been obtained to sell low yielding assets and acquire higher yielding assets to help maintain/increase income whilst accepting a higher level of risk to achieve this.</li> </ul> <p>However, no performance indicators have been included in the Business Plan.</p> <p>Consequently, it is not possible to assess whether the actions have achieved the expected outcomes, including maximising commercial returns.</p>	<p>Performance indicators should be established for non-operational/commercial assets.</p> <p>Examples of relevant performance indications used by City of York Council include:</p> <ul style="list-style-type: none"> <li>• Increase the rent roll by 2½% per annum net of sales.</li> <li>• Reduce the cost of management (now 20% in total). 15% is the first target figure.</li> <li>• To increase the percentage of rent collected within the quarter due (currently 98%).</li> <li>• To complete 20% of condition surveys for each of the next 5 year to assess repair backlogs.</li> <li>• To monitor capital receipts through the Asset Management Group.</li> <li>• To revalue 5 yearly.</li> <li>• To maintain full occupation – keeping the void rate less than 3% of properties.</li> </ul> <p><i>Note – these performance indicators are used by the City of York Council and the percentages included are their targets, it is acknowledged that they may not be appropriate or applicable to Swindon but are included as an example.</i></p> <p>Regular monthly reports on the performance of the estate should be produced. These reports should provide a general update on the management of the estate and issues arising, and cover in detail all aspects of income, debt management, lettings activity and also disposals across the corporate portfolio as a whole.</p> <p><b>Priority: High</b></p>	<p>Head of Property Assets</p> <p>February 2018</p>	Agreed

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Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
<b>3</b>	<b><i>Risk: Portfolio Management</i></b>			
3.5	<p>The current process for recording and reporting on property assets is reliant on disjointed software, excel spreadsheets and paper processes. Whilst these processes are known to the Property Team, they are not streamlined or efficient.</p> <p>Information requested by the Auditor, such as a list of outstanding/overdue rent reviews could not be provided.</p> <p>The service is in the process of upgrading the GIS software currently used to record property assets and lease information. It is anticipated that the upgrade will allow the service to improve data management.</p> <p>Alongside this, discussions are underway with an existing provider, CoStar<sup>4</sup>, as to how the service can use them to make more effective use of their data by providing them with online access to commercial property current availability, comparable evidence for valuations, tenants, and lease data including lease breaks and reviews.</p> <p>Timely access to property and facilities management data to support strategic asset planning, as well as performance monitoring is essential.</p>	<p>The property asset management data required to enable the service area to manage and report on the performance of the commercial asset portfolio should be identified.</p> <p>The existing data management arrangements should then be reviewed to determine whether it is capable of providing the required information in a timely and accurate manner.</p> <p><b>Priority: Medium</b></p>	<p>Head of Property Assets with advice and support from IT</p> <p>March 2018</p>	<p>Agreed – this links to the Council's digitalisation programme.</p>

<sup>4</sup> Costar are a commercial property information and analytics provider. The company's suite of online service offerings includes information about space available for lease, comparable sales information, tenant information and information about properties for sale. Its service span all commercial property types, including office, industrial, retail, land, mixed-use, hospitality and multifamily.

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Ref.	Finding	Recommendation	Responsible Officer and Timescale	Management Response
<b>3</b>	<b><i>Risk: Portfolio Management</i></b>			
3.6	<p>A Property Information spreadsheet was supplied to the Auditor listing all property assets, their current rent, asset value along with the lease termination date and next rent review date. This showed a number of properties where the rent review date had passed and/or the termination date had passed. There was no other additional information recorded to note the reason for the elapsed dates.</p> <p>In addition, a number of properties have a 'Tenancy at Will'. This agreement can be terminated at any time by either the tenant or the Council and it exists without a contract or lease and is unspecific in duration or the exchange of payment.</p> <p>It was not possible to establish the reasons for these due to staff unavailability and lack of audit time.</p> <p>Whilst it is acknowledged that it is likely that Officers are aware of these properties and the reasons for the apparent overdue reviews, there is a risk that rental income may not be maximised.</p>	<p>Outstanding lease events should be resolved and a review of all properties subject to a 'tenancy at will' should be conducted to ensure rental income is maximised.</p> <p><b>Priority: Medium</b></p>	<p>Head of Property Assets</p> <p>January 2018</p>	Agreed

## Swindon Internal Audit Services: Commercial Assets

### APPENDIX A

Standard Audit Opinions	Standard Audit Opinion System Control
<p>The audit opinion is based on two different criteria the first is materiality of the system and its impact on the Council if there was a system failure. This has been split into High, Medium or Low.</p> <p>The second criteria is the standard of control found within the system audited. This has been categorised into 4 different levels i.e. high; satisfactory; significant improvements required and fundamental weaknesses identified. Each of these categories has a standard opinion (see below).</p> <p>The combination of these two factors gives an overall risk assessment to the Council of one of four scores i.e. significant, of concern, moderate or minimal (see Overall Opinion section in the main report).</p>	<p><b>Audit Opinion 1. <i>High standard</i></b></p> <p>The auditor completing the review concluded the significant controls are in place and operating effectively and only minor recommendations have been made</p>
	<p><b>Audit Opinion 2. <i>Satisfactory standard</i></b></p> <p>The auditor completing the review concluded that most of the significant controls are in place and operating satisfactorily although some non-compliance was identified and therefore there is scope for improvement.</p>
	<p><b>Audit Opinion 3. <i>Significant improvements required</i></b></p> <p>The auditor completing the review concluded that existing procedures needed to be improved to ensure that they are fully reliable. A number of significant recommendations have been made to improve missing or failing controls.</p>
	<p><b>Audit Opinion 4. <i>Fundamental weaknesses identified</i></b></p> <p>The auditor completing the review concluded that the matters arising from the review are sufficiently significant to place doubt on the reliability of the procedures reviewed. Implementation of the recommendations made is a priority to ensure that reliance can be placed on the system.</p>

## Acknowledgements

Internal Audit would like to acknowledge and thank the following Officers who contributed to the review:

**Job Title**

Head of Non Operational Property

Regeneration and Projects Officer: Economy and Skills

Deputy Leader of the Council and Cabinet Member for Finance and Corporate Services

Head of Technical Finance

Director of Law and Democratic Services

Property Data Manager

Head of Operational Property

Credit Control and Revenues Monitoring Officer

Head of Conveyancing, Environment and Contracts

## Swindon Internal Audit Services: Commercial Assets

### APPENDIX C

#### Example Investment and Appraisal Criteria

	Score	4	3	2	1	0
<b>SCORING CRITERIA<sup>5</sup></b>	<b>Weighting Factor</b>	<b>Excellent/ Very Good</b>	<b>Good</b>	<b>Acceptable</b>	<b>Marginal</b>	<b>Unacceptable</b>
Location	12	Major Prime	Micro Prime	Major Secondary	Micro Secondary	Tertiary
Tenancy Strength	10	Single Tenant with strong financial covenant	Single Tenant with good financial covenant	Multiple tenants with strong financial covenant	Multiple tenants with good financial covenant	Tenants with poor financial covenant strength
Tenure	9	Freehold	Lease 125 years plus	Lease between 50 & 125 years	Lease between 20 & 50 years	Lease less than 20 year
Occupiers lease length	5	Greater than 10 years	Between 7 and 10 years	Between 4 & 7 years	Between 2 & 4 years	Less than 2 years: vacant
Repairing Terms	4	Full repairing & insuring	Internal repairing – 100% recoverable	Internal repairing – partially recoverable	Internal repairing – non recoverable	Landlord
Lot Size	2	Between £6m and £12m	Between £4m & £6m or £12m & £18m	Between £2m & £4m or £18m & £20m	Between £1m & £2m or £20m & £25m	Less than £1m or more than £25m

<sup>5</sup> Criteria taken from Guildford Borough Council's Asset Investment Strategy. Minimum score of 100 out of a maximum score of 168.