

Property Management Review – Progress Update

11th September 2020

Further to an internal Audit on the Property Management function within the Chief Executive's Department a report was presented to the Audit Committee on the 24th January 2020, which identified a number of concerns regarding the management and administration of the Authority's leased properties.

An action plan was prepared to address these concerns and the purpose of this report is as an update to Committee on the present position in relation to the planned actions. The summary report is appended, and a column has been added to confirm the specific actions undertaken for each identified action.

As previously reported, a new Acquisition and Disposal Policy has been formulated and as specified in the action plan it is confirmed that Officers have been reminded to consistently follow these procedures and this message is reaffirmed at every opportunity.

The report identified a lack of clarity in the procedure for acceptance of late bids and possible conflict with procurement rules and therefore to address this point the policy has been amended and now includes the following statement:

“ If the proposed transaction is likely to be captured by Public Contracts Regulations 2015 then the above late bids procedures will not apply and the Council's Contract Procedure Rules will be applicable. Advice should be sought from the Corporate Procurement Unit before action is taken (Reference section 4.1 below – Public Procurement). ”

In instances where the Public Contracts Regulations 2015 do not apply the Authority still has to consider late bids based upon case law and statutory legislation however the amendment provides the required clarity in relation to the previous anomaly with public procurement rules .

As part of the Acquisition and Disposal Policy a checklist has been formulated for all new transactions to follow. It should, however, be recognised that this checklist will not apply where tenants have statutory rights to renew their leases and in such circumstances the process will have to follow statutory guidelines which are in place for secured tenancies.

In addition, now with home working of staff due to the COVID 19 pandemic there may be a need to refine some aspects of the disposal policy, particularly in terms of sign off and whether this can be done on an electronic basis. Any changes will need close liaison with the Audit section to ensure that they are in agreement with our proposals.

In accordance with the action plan, a definitive schedule of the commercial portfolio has been prepared and this list has been reconciled against the commercial budget code to ensure accuracy. Since the original Property Management Audit was undertaken rent reviews have been carried out on 31 properties some with multiple reviews. In the majority of cases, however, these were recorded at nil increase due to market conditions. We have also completed two statutory lease renewals which were outstanding at the time of the Audit.

This review and the schedules prepared have identified any pending lease renewals and outstanding rent reviews. We can confirm that all historic rent review and lease renewal transactions have been actioned with only 7 ongoing lease renewal cases at differing stages of negotiations and a further 14

rent reviews ongoing. Some of these are governed by statutory guidelines in terms of timeframes. Through this review process there is also a clear understanding of future workload in terms of lease renewals and reviews. Clearly going forward the COVID 19 pandemic may have a significant negative effect on rental levels and accordingly rent increases through reviews or renewals are unlikely to happen in the short term.

A separate schedule has also been prepared of leased Leisure properties and it is proposed that discussions are held with the Audit section to refine the definition of the commercial property's category on Asset Manager.

In the agreed actions it also identified the need to establish and implement a procedure for verification and challenge of figures submitted by tenants where rental could be based on rents received or turnover. As a result of this issue being raised in a previous audit a more robust approach is now in place and an example of such is where a rent is based on a percentage of income received we now ask for copies of the individual licence agreements of tenants where previously we relied upon the figures provided by the head leaseholder.

The review of the commercial portfolio has also enabled us to identify and quantify any additional costs for services which can be collected from the tenant and processes have been put in place to take this forward. In addition review of the leases has identified specific requirements in terms of tenants insuring arrangements and to this end a total of 73 letters were sent out to the affected tenants requesting evidence of insurance, to date there are circa 13 which are outstanding and an action plan is in place to resolve these .

An agreed action was that Debtors should be consulted on any potential new tenant and this is a protocol we now follow to ensure that we are fully aware of their payment history and any debts they may have outstanding.

We have endeavoured to implement all the agreed actions from the previous Audit in a timely manner and we would hope to work closely with the Audit section to ensure that our management and administrative procedures are fit for purpose and with their assistance refine any aspect of the process which may need improvement .

DEPARTMENT	AUDIT REVIEW	AUDIT REF
Chief Executives	Property Management	3118004

BACKGROUND

Carmarthenshire County Council has a number of properties for which the Authority has arranged with organisations the provision and development of a range of services within the County, or are let to tenants to generate income to supplement the Council's budgets.

SCOPE

The review covered the controls and procedures in operation, assessing the extent to which:

- Recommendations in the previous Internal Audit report have been addressed;
- There is a robust system in place for the recording and monitoring of information held on properties with agreements / leases; and
- The Authority's policies and procedures for the allocation of agreements/leases are fully complied with.

SUMMARY OF RESULTS

The previous Internal Audit report identified significant concerns relating to the management and administration of the Authority's leased properties; it is disappointing to report that a number of these issues remain outstanding.

Work has been undertaken to develop an up to date 'Acquisition & Disposal Policy' and to identify all leased properties/properties with agreements, in order to facilitate effective management of properties. However, actions to resolve the specific issues previously identified are yet to be completed. It is acknowledged, however, that a commitment has been made to address all actions identified.

Audit testing was undertaken on a sample of newly leased properties, following the introduction of the new policy; it is concerning to note that testing identified instances where this policy and related procedures were not being fully complied with and many expected key controls relating to the leasing of the Authority's properties are still not operating to an acceptable standard.

Two fundamental weaknesses were identified during the current review; these are detailed in the attached action plan, along with the actions agreed to be implemented by management.

The remainder of the issues identified were three '*Priority 2*' issues; summarised details are as follows:

- Whilst an 'Acquisition and Disposal of Property Policy' has been formulated, there are areas within the policy which lack clarity such as the procedures for the acceptance of late bids.
- An exercise has been undertaken to produce a comprehensive record, in the form of a tenancy schedule, of all commercial properties that are subject to lease or agreement.

A review of the tenancy schedule identified that it was not fully accurate and did not include all relevant properties.

- The information held on the paper and digital files was often incomplete, not up to date, with relevant information often not being held in the files or unable to be provided at the time of the Audit review. This issue was also identified during the previous review.

NUMBER OF RECOMMENDATIONS		OVERALL ASSURANCE
Priority 1 - Fundamental Weaknesses	2	Low
Priority 2 – Strengthen Existing Controls	3	
Priority 3 – Minor Issues	0	

Internal Audit review of Property Management 2018/19

Action Plan relating to 3* Issues identified

Ref	Summary of Issue Identified	Recommendation	Planned Action	Specific Action Taken – Audit Committee 11/9/20 update	Responsible officer Agreed Target Date for completion of actions
1	<p>Testing of a sample of 4 properties that have been newly leased since the last Internal Audit review, continues to identify concerns in the management and administration of the Authority's assets.</p> <p>Of particular concern was:</p> <ul style="list-style-type: none"> - The newly formulated procedures were not always being fully complied with; - Evidence that documentation was received by the specified deadlines was not always available; - Evidence of the decision-making process including an evaluation of Expressions of Interest / Tenders was not always available to demonstrate that the best terms had been obtained, and there had been impartiality; - Where early possession of a property had been requested, testing identified that appropriate authorisation had not always been sought; 	<p>It is imperative that processes for the management and administration of the Authority's leased properties are reviewed and significantly improved in order to ensure good control over the Authority's assets is achieved.</p> <p>In addition, formal procedures should be established for the monitoring of properties with leases / agreements to ensure the terms and conditions are being fully complied with, and rent reviews and renewals are undertaken promptly.</p>	<p>Procedures do not require review. Officers will be reminded to consistently follow the newly formulated procedures.</p> <p>The tenancy schedule will be reviewed and updated, where appropriate, to ensure that it is accurate and up to date. All relevant staff will be reminded of the procedures for updating the Asset Manager system. Reconciliation of the tenancy schedule and Asset Manager records will be implemented and completed.</p> <p>Completion of these actions will ensure that records, including lease</p>	<p>Officers have been advised that it is imperative that the processes within the new policy are followed rigidly and this message is consistently reaffirmed.</p> <p>The tenancy schedule has been reviewed and this has been reconciled against the commercial portfolio budget code to ensure accuracy. All relevant staff are fully aware of the process for updating the Asset Manager system.</p> <p>The information held on Asset Manager accords with the schedule for the commercial portfolio however there may be need to refine the specific categorisation of some properties. The completion of the actions has certainly provided an accurate position for the commercial portfolio which has ensured that we have been able to action all reviews and renewals promptly. In addition, we have a detailed action plan going forward for future reviews and lease renewals.</p>	<p>Valuations Manager</p> <p>31/03/2020</p>

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	<p>- Testing identified that completed agreements were not always available to support leased properties.</p> <p>Detailed testing of existing leased properties was not undertaken as Internal Audit had been advised that recommendations previously made, following the 2017/18 audit review, were yet to be actioned. Internal Audit have been given an assurance that these will be addressed.</p>		<p>terms and conditions, are accurate. Appropriate action to ensure that lease terms are being adhered to, and rent reviews and renewals actioned promptly, will be undertaken.</p>		
2	<p>Testing identified that adequate monitoring of properties with agreements/leases is not always undertaken. In particular, the finance element of leased properties is not being managed appropriately which could result in a loss of income for the Authority.</p>	<p>Procedures should be established to ensure the financial elements of contracts are actioned appropriately and all income due is collected promptly.</p> <p>Adequate records to support such actions should be maintained and these should be reviewed by an appropriate senior member of staff.</p> <p>Procedures for income collection should fully comply with the requirements of the Authority's Financial Procedure Rules.</p>	<p>TIC review of debtors processes will result in improved procedures being established.</p> <p>Procedures will be established and implemented to ensure where income needs to be verified with tenants that figures submitted by tenants are not accepted without challenge. Supporting evidence will be requested to support income figures and</p>	<p>The TIC review has resulted in an improvement in the debtor process and liaison between sections.</p> <p>This issue was highlighted in the original Property Management Audit and as a result of advice from the Audit Section we have set up a far more robust process to verify and challenge income figures, an example of this is that we now ask for copies of relevant licence agreements where the Authority's rental is based upon rent received by the head leaseholder.</p>	<p>Valuations Manager</p> <p>31/03/2020</p>

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			<p>records retained in full to evidence this.</p> <p>Procedures will be established and implemented to ensure that additional charges specified in agreements are being collected.</p> <p>Point 12 in our checklist includes a requirement to liaise with finance on any debt and to undertake the necessary references.</p>	<p>Processes have been put in place to collect any additional charges specified in agreements for current and future years. Furthermore, information has been sought from tenants to confirm insurance arrangements to accord with lease requirements.</p> <p>Officers have been reminded of these requirements in our policy and the necessity to follow this process for any new lettings / assignments.</p>	