

Agenda Item	31
Report No	RES/126/15

**Asset Management – Internal Audit Report**

**Report by Director of Development & Infrastructure**

**Summary**

The Committee is requested to note the findings of the Internal Audit Report on Asset Management presented to Audit and Scrutiny Committee on 30 September 2015, to note the actions being taken to implement the findings, and to agree the recommendations of this report.

**1. Background**

- 1.1 This Audit Review was requested by the former Director of Housing and Property in 2013 in order to gain an independent and objective (Internal Audit) view regarding some of the organisational challenges being faced by the former Housing and Property Service and the Corporate Property Asset Management (CPAM) Team in seeking to take forward a corporate cross-service approach to property asset management across the Council.
- 1.2 Internal Audit undertook a review of Asset Management as part of their 2014/15 Audit Plan which looked at the systems in place for the planning, control and monitoring of the Council’s operational property assets.
- 1.3 The findings and recommendations of the Internal Audit - Asset Management (IA-AM) Report are at **Appendix 1**. The full Internal Audit Report, presented to and agreed by Audit and Scrutiny Committee on 30 September 2015<sup>1</sup>, can be accessed on the Members’ Bulletin [http://www.highland.gov.uk/staffsite/downloads/file/2968/internal\\_audit\\_report\\_-\\_asset\\_management](http://www.highland.gov.uk/staffsite/downloads/file/2968/internal_audit_report_-_asset_management)).

**2. Current Position**

- 2.1 The audit review identified five actions and action owners, four of which relate to organisational change and one action relates to the Corporate Property Asset Management team which are set out at section 3 below. The Director of Development and Infrastructure has agreed the audit recommendations and actions.
- 2.2 The audit report also highlighted (at section 4.1) the progress and positive track record of the Corporate Property Asset Management Team to date, and Members are requested to note the financial achievements, amongst other property rationalisation initiatives, that the CPAM Team has contributed to the Council’s efficiencies and savings over the last five years (2010-11 to 2014-15) from property rationalisation initiatives and disposals:

Capital Receipts	from Property Disposals	£6.3million (gross)
Revenue Savings	excl. ring fenced budgets	£0.54million (net)
Backlog Maintenance	from property disposals	£12.4million

- 2.7 The Council is also currently forecast to achieve further revenue savings of

<sup>1</sup> Audit and Scrutiny Committee; Item4, Internal Audit Reviews and Progress Report

£0.568m between 2015-16 and 2018-19 arising from CPAM Team property rationalisation initiatives, and the team continues to focus on identifying further beneficial property rationalisation that will contribute to the Council's overall efficiencies and savings.

### **3. Actions**

- 3.1 The following section highlights each of the actions contained within the IA-AM – Action Plan (IA-AM Report, Section 7), which also identifies an Action Owner to take forward and implement the recommended action(s):-

#### **Audit Report: Action 4.1.1**

- 3.2 This action highlights the challenges encountered in gaining early visibility and confirmation of the costs of owning and occupying property that will inform property (dis)investment decision making, and initial discussions have already taken place with the Director of Finance with regard to how the audit recommendations contained in Action 4.1.1 can be progressed by the Finance Service.

#### **Audit Report: Action 4.2.1**

- 3.3 This action highlights that a standard methodology should be put in place for the new Property Manager (Workplace Transformation) Officer post that should include the links between business case approvals (for property changes) obtained by the CPAM Team and the Development and Infrastructure (DI) Service Project Management Team methodologies for delivering property projects; the Council's policy requirements in relation to the Financial Regulations (s25) and officers involved in project delivery.

- 3.4 The Property Manager (Workplace Transformation) Officer post reports into the DI-Programme Manager who, as Action Owner, is tasked with taking the recommended audit action forward. Progress has already been made with regard to Actions 4.2.1 (1) and (2) and clarifying the role of this new post role in the delivery of property projects.

#### **Audit Report: Action 4.2.2**

- 3.5 This action highlights that consideration should be given to combining and consolidating individual Office Rationalisation Project Boards into a single governance board for office transformation projects, or into the Asset Management Project Board (with a new remit and composition).

- 3.6 The Audit Report notes that a report bringing forward a proposal and recommendation for a single office transformation programme board has been previously prepared for consideration, and that the Director of Development and Infrastructure will be reviewing this alongside the role, remit and membership of the Asset Management Project Board to strengthen the role of the board in relation to property matters.

#### **Audit Report: Action 4.3.1**

- 3.7 This action highlights the requirement for a standard methodology that the CPAM Team must follow when seeking information for property reviews/projects from other Council/Corporate initiatives.

- 3.8 This review has already taken place and a standard methodology is under development for implementation this year.

#### **Audit Report: Action 4.4.1**

- 3.9 This action highlights that the Asset Management-Target Operating Model (AM-TOM)<sup>2</sup> (agreed by Resources Committee (RES-106-10; 18 August 2010) has not yet been fully implemented. This has been due in part to organisational and service changes, competing priorities and resource pressures that have occurred in the intervening period, 2012-13 - 2014-15.
- 3.10 The agreed Asset Management-Target Operating Model, identified as part of a CIPFA Property Review of the Council's Asset Management approaches, summarises the "cross-organisational" changes required to adopt a corporate property asset management approach across the Council.
- 3.11 Members are invited to note at **Appendix 2** the current position with regard to Asset Management – Target Operating Model Actions, Action Owners and Action Status. 12 of the 31 AM-TOM recommendations have been completed. Some of the current incomplete actions need to be revisited and reviewed due to organisational and service changes that have taken place since the AM-TOM was initially agreed by Committee.
- 3.12 The Resources Committee report (RES-106-10; 18 August 2010)<sup>3</sup> highlighted that an Executive Officer of the Council should be designated as the "Corporate Property Officer" (a role description is included at **Appendix 3**) who has overall responsibility for managing the Council's general fund property assets.

The Committee is requested to:

- 3.13
- confirm agreement that the Director of Development and Infrastructure shall be the designated "Corporate Property Officer";
  - agree that the Corporate Property Officer is responsible for ensuring that the actions contained within the Asset Management – Target Operating Model (**Appendix 2**) and this Internal Audit - Asset Management report (**Appendix 1**) are progressed by Action Owners to a satisfactory completion; and
  - agree that the Action Owners identified in the Asset Management – Target Operating Model (**Appendix 2**) and the Internal Audit - Asset Management report (**Appendix 1**) progress and report completion of their respective actions to the Asset Management Project Board to a timescale agreed with the Corporate Property Officer.

## 4. Implications

### 4.1 Resource

Resource implications will need to be assessed and secured by individual Action Owners (within the AM-TOM and IA-AM Action Plan) as part of their individual action plans to be agreed with the Corporate Property Officer/Asset Management Project Board to progress and complete their individual actions.

### 4.2 Risk

The actions contained within the AM-TOM and IA-AM Report, identified by independent parties, are aimed at improving how the Council manages its general fund property portfolio. If the actions are not completed, the Council will be less likely to be able to identify and realise property rationalisation opportunities in its property portfolio that are based on sound investment/financial decision making.

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<sup>2</sup> [Resources Committee \(RES-106-10; 18<sup>th</sup> August 2010\): Review of Asset Management by CIPFA.](#)

<sup>3</sup> [Resources Committee \(RES-106-10; 18<sup>th</sup> August 2010\): Review of Asset Management by CIPFA.](#)

#### 4.3 Equalities, Gaelic, Rural, Legal, and Climate Change/Carbon Clever

There are no equality, Gaelic, rural, legal or climate change/Carbon Clever implications arising from this report.

#### Recommendations

The Resources Committee is requested to:

- **note** the findings of the Internal Audit Report on Asset Management presented to Audit and Scrutiny Committee on 30 September 2015 and the actions being taken to implement the report findings;
- **note** (at **Appendix 2**) the current position with regard to Asset Management – Target Operating Model Actions, Action Owners and Action Status;
- **agree** that the Director of Development and Infrastructure shall be the designated “Corporate Property Officer” of the Council;
- **agree** that the Corporate Property Officer is responsible for ensuring that the actions contained within the Asset Management – Target Operating Model (**Appendix 2**) and the Internal Audit - Asset Management report (**Appendix 1**) are progressed by Action Owners to a satisfactory completion; and
- **agree** that the Action Owners identified in the Asset Management – Target Operating Model (**Appendix 2**) and the Internal Audit - Asset Management report (**Appendix 1**) progress and report completion of their respective actions to the Asset Management Project Board to a timescale agreed with the Corporate Property Officer.

Designation: Director of Development & Infrastructure

Date: 3<sup>rd</sup> November 2015

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**CONFIDENTIAL**

**INTERNAL AUDIT  
FINAL REPORT**

DEVELOPMENT & INFRASTRUCTURE SERVICE

ASSET MANAGEMENT

**AUTHOR**

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Internal Audit  
Finance Service

**DISTRIBUTION**

Director of Development & Infrastructure  
Director of Finance  
Head of Corporate Finance, Finance Service  
Acting Head of Property, Development & Infrastructure  
Corporate Property Asset Manager, Development & Infrastructure  
Programme Manager, Development & Infrastructure  
Service Finance Managers, Finance Service  
Audit Scotland

**REF:** HED04/002.bf

**DRAFT DATE:** 14/07/15

**FINAL DATE:** 22/09/15

## 7. ACTION PLAN

The Action Plan contains **5** recommendations as follows:

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	0
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	5
Minor issues that are not critical but managers should address.	Low	0
<b>Total recommendations</b>		<b>5</b>

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.1.1	Medium	The financial ledger does not list a cost centre for every property. This then causes difficulties in obtaining property costs, in identifying high cost/financially poor performing properties that can be targeted for review/option appraisal by the CPAM potentially leading to more robust investment and dis-investment decision making by officers and Members, and calculating savings objectives. However, it is possible to have an analysis code for each cost centre with the address of the building in the new financial system (Integra).	<p>(1) A joint review should look at the possibility of implementing a cost centre for each Council owned occupied building. This should be a joint-project between the Finance Service and the Development &amp; Infrastructure Service. It should assess the practicalities of maintaining the coding structure and the financial data.</p> <p>(2) A review of the building revenue information received by the Council should take place to ensure it can be easily coded using the proposed new cost centre structure, including any limitations with the cost information restricting the effectiveness of the cost centre structure. It is not to change the billing arrangements already in place.</p>	Development & Infrastructure will work with the Finance Service on this review, looking at the most appropriate buildings first.	Acting Head of Property, Development & Infrastructure.  Corporate Property Asset Manager, Development & Infrastructure  Service Finance Managers, Finance Service	31/12/16

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2.1	Medium	A standard methodology is used by CPAM for planning property projects, prior to committee approval. However, a delay in the implementation of the Fort William office move has highlighted a missing link between the business case and funding approval and implementation of projects. A Project Manager (Workplace Transformation) officer post has been created to close this link, however procedures for their role within the process of property projects have yet to be fully developed and documented.	<p>(1) A standard methodology for the Project Manager (Workplace Transformation) Officer post should be put in place.</p> <p>(2) The methodology should include links from the CPAM methodology and then lead into the project management team's methodology.</p> <p>(3) The methodology should also include the Council policy requirements for those involved in the project (e.g. Financial Regulations section 25), which would include qualifications and training.</p>	<p>(1) &amp; (2) – There is a Job and person Specification that defines the role. A standard methodology is currently in development and that will be reviewed and updated as this new Property Manager (Workplace Transformation) role develops.</p> <p>(3) The methodology will include the Council's policy requirements in relation to Financial Regulations, training and development. Ongoing training and development will be reviewed as part of the Council's ERD process.</p>	<p>Programme Manager, Development &amp; Infrastructure</p> <p>Programme Manager, Development &amp; Infrastructure</p>	<p>30/11/15</p> <p>Ongoing</p>

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2.2	Medium	<p>Separate boards have been set up for office rationalisation projects. There is scope to improve efficiency and share good practice if these are brought together into one board.</p> <p>A CPAM report bringing forward this proposal and recommendation has been prepared and submitted for consideration (19/06/2014).</p>	<p>Consideration should be given to combining and consolidating individual Office Project Boards and bringing them under the control of a single governance board for office transformation projects, or the Asset Management Project Board (with a new remit and composition).</p>	<p>A review is to be undertaken of the roles, remits, composition and arrangements for a number of existing/proposed property governance boards (including Asset Management Project Board, Capital Programme Board, Office Transformation Projects and Property Compliance) that will be aligned with the Council's Asset Management – Target Operating Model.</p>	<p>Director of Development &amp; Infrastructure</p>	<p>31/03/16</p>



REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.3.1	Medium	CIP-AM was one of the Corporate Improvement Programme (CIP) projects, prior to its closure on 31/03/15. Other CIP projects and strategies (e.g. Mobile & Flexible working, Information Management and Customer Engagement, and the Carbon Reduction strategy) produced valuable information that could be input into the Area Property Asset Reviews and also to individual property projects. This would assist in determining floor space and facility requirements. Also other Council priorities, such as Carbon Reduction, would benefit by ensuring the Council uses fewer buildings that are more energy efficient.	Once the initiatives to be developed under the TSP are known, the standard methodology should be amended to clearly state the procedure staff must follow when seeking information for property projects from other initiatives.	This has been reviewed and a standard methodology will be put in place.	Corporate Property Asset Manager, Development & Infrastructure	30/11/15

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.4.1	Medium	<p>The AM-Target Operating Model (agreed by Resources Committee, August 2010), which summarises the "Cross-Organisational" changes and improvements required following a CIPFA Property review of the Council's Asset Management Approaches, has not been fully implemented, due in part to organisational changes (during 2013-14; 2014-15); competing priorities and resources issues.</p> <p>One recommendation from this review was to develop Service Asset Management Plans, however in 2012 the Asset Management project board agreed to an alternative more pragmatic Strategic Area Property Review. The Inverness Area Asset Management Plan was agreed by Resources Committee (Nov 2014), and the Lochaber Area Asset Management Plan was agreed by Resources Committee (May 2015).</p>	The AM-Target Operating Model should be reviewed by Senior Service Management to ensure that it remains current and relevant to the Council, and, once reviewed, recommendations fully implemented.	<p>The AM-Target Operating Model will be reviewed by Senior Development &amp; Infrastructure Service Management to ensure that it remains current and relevant to the Council's current priorities. Once the model has been reviewed, an action plan will be developed to fully implement any outstanding actions.</p>	Director of Development & Infrastructure / Acting Head of Property	31/12/15

**Internal Audit Opinion**

<b>Level</b>	<b>Definition</b>
<b>Full Assurance</b>	There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
<b>Substantial Assurance</b>	While there is generally a sound system, there are minor areas of weakness which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
<b>Reasonable Assurance</b>	Whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
<b>Limited Assurance</b>	Weaknesses in the system of controls are such as to put the system objectives at risk, and/ or the level of non-compliance puts the system objectives at risk.
<b>No Assurance</b>	Control is generally weak, leaving the system open to significant error or abuse, and/ or significant non-compliance with basic controls leaves the system open to error or abuse.

## Appendix 2 - Asset Management - Target Operating Model - Progress status - As at November 2015

### CIPFA Property - Asset Management - Target Operating Model

Action ID	AM-TOM Action Plan - Recommendation	Task owner/ Responsible Officer	AM - TOM Action - Current Status
<b>Actions - Priorities - Finance</b>			
8	Continue to work towards understanding the true cost of owning and utilising property and set targets for performance and efficiency.	DoF	Review
13	Provide an IFRS awareness seminar for Property staff	DoF	Complete
31	Establish a realistic capital receipt target	DoF	Review
<b>Actions - Priorities - CPAM Team</b>			
2	Establish a structured and resourced approach to working with Services leading to development of Service Asset Management Plans.	CPAM	Complete
7	Provide Member training; Streamline process for declaring property surplus; Review Reports to Members.	CPAM	Complete
9	Review office accommodation and set against council's wider asset management priorities.	CPAM	Complete
17	Formalise option appraisal and whole life costing approach.	CPAM	Complete
18	Develop Service Asset Management Plans and weigh all SAMPs against the overall aims, objectives and property strategy of the Council such that a coherent corporate plan is developed.	CPAM	Complete
25	Establish a robust process to challenge Services need for property (including use and retention of historic assets)	CPAM	Complete
28	Develop an up-to-date Asset Management Plan	CPAM	Complete
30	Develop a comprehensive property performance management framework and undertake benchmarking with similar organisations.	CPAM	Review
<b>Actions - Priorities - Corporate Property Officer</b>			
1	Develop high level "Property Strategy"	CPO (SBk)	Complete
3	Coordinate all property budgets at corporate level and prioritise spend to address corporate asset objectives.	CPO (SBk)	Review
4	Confirm "Director of Development and Infrastructure" as "Corporate Property Officer"	CPO (SBk)	Review
5	Widen remit and role of AMPB to provide a strategic forum for asset management, challenge and coordination	CPO (SBk)	Review
6	Recruit a minimum of 2 additional "professional" staff to AMT and identify key service representatives to move into a more corporate coordination role	CPO (SBk)	Complete
15	Confirm that capital receipts and revenue savings are retained as corporate funds.	CPO (SBk)	Review
26	Ensure property representation on all service and efficiency reviews	CPO (SBk)	Review
<b>Actions - Priorities - Head of Property</b>			
12	Specify and procure a new property database linked to finance systems	aHoP	Complete
11	Carry out a full data audit	aHoP	Review
14	Complete the condition survey, calculate the backlog maintenance costs and target expenditure to address them	aHoP	Review
16	Review data on H&S performance and risks of all assets	aHoP	Review
19	Improve joint working with partners including joint mapping of property assets.	aHoP	Complete
22	Introduce a change management system to ensure consistency between property and finance data systems	aHoP	Review
23	Identify and benchmark the backlog maintenance costs and formally report performance in this area.	aHoP	Review
24	Complete DDA surveys and develop Access Plans for properties	aHoP	Review
27	Ensure that Sustainability policies are translated into clear property improvement targets	aHoP	Review
29	Ensure complete dataset with computerised management system and performance measures	aHoP	Review
<b>Actions - Priorities - Head of Property Partnerships</b>			
10	Consider centralising the management of the non-operational property portfolio	HoPP	Review
21	Review all tenanted, non-residential property including evaluation of rate of return and future development potential.	HoPP	Review
<b>Actions - Priorities - Head of Policy and Performance</b>			
20	Complete the procedure for transfer of assets to communities and third sector.	HoPR	Review

#### Legend

DI-Corporate Property Asset Manager

DI-Corporate Property Owner (DI-Service Director)

Finance - Service Director

CEX-Head of Policy and Reform

DI-Acting Head of Property

DI-Head of Property Partnerships

CPAM

CPO (SBk)

DoF

HoPR

aHoP

HoPP

### **Appendix 3 – The role of “Corporate Property Officer”<sup>1</sup> shall:-**

- Provide a focal point for a council wide approach to asset management;
- Strategically manage the asset management processes and programmes to ensure best value and improve the effectiveness of the property estate;
- Be responsible for the development corporate property policies and documentation relating to asset management and keeping these up to date;
- Ensure that consultation on asset management is undertaken with all relevant stakeholders and ensuring property is effectively aligned to current and future service delivery;
- Work with other public bodies and partner organisations to encourage the shared use of assets where appropriate;
- Ensure that relevant information is available on assets is held corporately;
- Be responsible for the development and management of a performance framework for asset management.

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<sup>1</sup> [Resources Committee \(RES-106-10; 18<sup>th</sup> August 2010\): Review of Asset Management by CIPFA.](#)