

**CONFIDENTIAL**

**INTERNAL AUDIT  
FINAL REPORT**

DEVELOPMENT & INFRASTRUCTURE SERVICE

ASSET MANAGEMENT

**AUTHOR**

David Martin  
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

**Contents**

<b>1.</b>	<b>INTRODUCTION .....</b>	<b>1</b>
<b>2.</b>	<b>REVIEW OBJECTIVES .....</b>	<b>2</b>
<b>3.</b>	<b>SCOPE, METHOD AND COVERAGE .....</b>	<b>2</b>
<b>4.</b>	<b>MAIN FINDINGS .....</b>	<b>2</b>
<b>5.</b>	<b>CONCLUSION .....</b>	<b>6</b>
<b>6.</b>	<b>AUDIT OPINION .....</b>	<b>6</b>
<b>7.</b>	<b>ACTION PLAN .....</b>	<b>7</b>

## 1. INTRODUCTION

This audit was undertaken as part of the 2014/15 Audit Plan and assessed the systems for the planning, control and monitoring of assets.

The audit also assessed the problems with the current system for realisation of the Corporate Property Asset Management savings and benefits to identify a future framework which could be used to capture relevant savings and benefits.

The Transformational Savings Programme (TSP) replaced the Corporate Improvement Programme (CIP), which closed on 31/03/15. Asset Management under the Transformational Savings Programme will:

- Continue to deliver the office rationalisation agenda;
- Identify new opportunities for development.

However, these objectives have not yet been discussed with the Corporate Property Asset Management team (CPAM).

This audit review took place prior to the CIP closure. The Asset Management CIP project (CIP-AM) was created in 2011 and the programme of work was delivered by CPAM. The team was formed through the integration of existing staff resources from the asset and estate management teams along with one new technical administrative support post. CPAM is led by the Corporate Property Asset Manager and has a broad property portfolio management remit including Asset and Estates Management. It has a strategic view of asset use with the aim of aligning the Council's land and building assets with its corporate goals and investment strategy.

The principal objective of the CIP-AM project is "To reduce the number and floor area of the Council's property assets and the costs of holding them".

In pursuit of this overarching aim, the CIP-AM project's financial objectives are to:

1. Reduce the number of property assets held;
2. Generate capital receipts from the disposal of property assets that can be reinvested;
3. Reduce the overall revenue costs of owning and occupying property by holding fewer assets that are in better condition, and thereby spending less on property overheads such as property management, maintenance, cleaning and energy costs.

In addition, the CIP-AM project's wider aims have been to:

- Develop Corporate Asset Management Plans to direct the way that the Council manages and plans for investment in its assets;
- Create a Corporate Property Asset Register, which was achieved in January 2015 with the implementation of the Tribal K2 system;
- Rationalise property assets, including: disposing of surplus assets, acquiring assets, investment in assets together with maintenance to ensure that use of assets is maximised and costs minimised, while meeting delivery needs;
- Make best use of scarce capital resources by taking a corporate view of priorities to ensure that capital allocations support the objectives of the Council, the priorities of its Service teams and the capital requirements of its assets;
- Ensure that the Council's physical assets are working, like the other resources at the Council's disposal, to achieve the Council's Corporate Plan objectives.

For the 5 year period from 2010-11 to 2014-15 the CPAM Team have achieved the following against the CIP-AM project annual financial savings targets for Capital Receipts, Revenue Savings, and Costs Avoided (see section 4), the CPAM Team have achieved:-

1. Capital Receipts:

Number of Disposals	121
Gross value	£6.3m (target £5m)
Net value	£4.1m (including ring-fencing; below market transfers and discounts agreed by Members)
Asset Transfers/ Below Market Transfers	£1.2m (29 properties)

2. Revenue Savings £0.54m

3. Maintenance Costs Avoided £12.4m (target £5m)

From 2015-16, under the TSP, there is an initial savings target of £0.540m.

## 2. REVIEW OBJECTIVES

The objectives of the review were to ensure that:

- (i) Property and financial information systems provide adequate information to identify property costs and savings.
- (ii) Property projects comply with good project governance and Financial Regulations.
- (iii) Information from other relevant CIP (now TSP) projects and Council strategies feeds into Area property reviews and property projects.
- (iv) Directors and their Services engage with the Corporate Property Asset Management team to define current and future property needs.
- (v) The Council promotes joint working on asset management with its external partners.

## 3. SCOPE, METHOD AND COVERAGE

The audit reviewed the systems for the planning, control and monitoring of assets. The difficulties with the previous system of identifying savings and benefits associated with CIP-AM were also examined in order to identify a future framework which could be used to capture relevant savings and benefits. Controls and resources were discussed with the Corporate Property Asset Manager (Development & Infrastructure) and the Head of Corporate Finance and the Finance Manager (Corporate Budgeting, Treasury and Taxation).

## 4. MAIN FINDINGS

The main findings of the review, referenced to the above review objectives, are as follows:

- 4.1 This objective was not achieved. The Council's financial system (Oracle and now Integra) does not provide a cost centre for every Council property, which then causes difficulties in obtaining the associated running costs and in calculating savings.

The savings target for Asset Management, as part of the TSP, is £0.540m. The breakdown of this figure, and the rationale which determined the amount, have

not yet been provided. However, due to the lack of information available from the financial ledger, it is not possible to demonstrate that this figure is achievable.

For the period 2010-11 to 2014-15, there were three key annual financial savings targets for CIP-AM which were owned by CPAM:

#### **Capital Receipts:**

The Capital Receipts target (£1m) was a historic figure set in 2009. It had no logical basis to determine if it was either challenging or achievable.

#### **Revenue Savings**

In 2008, the Council did not hold accurate financial data relating to its operational property portfolio and its property revenue budgets/costs. The CIP-AM property rationalisation revenue savings target, initially set at £340,000 p.a., was not evidenced based, as the property running costs could not be established. The original source for this budget could not be confirmed by the Corporate Property Asset Manager and the target could not be evidenced as the property running costs could not be established.

The Revenue Savings target over the period 2010-11 to 2014-15 has fluctuated as a result of the challenges faced by the organisation in attributing property revenue budget savings.

In many instances, property revenue budgets sitting within Service budgets had been ring-fenced/claimed/re-allocated by the occupying Services leaving only residual property revenue budgets at the point of disposal. The following revenue savings were outwith the control of the CPAM team:

- (i) Church Street office project,
- (ii) Income from property renewables;
- (iii) Refunds generated from Non Domestic Rates appeals.

The CPAM Team has achieved, for the period 2010-11 to 2014-15 annual recurring revenue savings from property rationalisation initiatives of £0.54m (against a gross cumulative target of £1.295m).

From 2015-16 onwards, an initial savings target for Asset Management has been set as part of the TSP at £0.540m. The breakdown of this figure, and the rationale which determined the amount, have not yet been provided by the CIP Programme Manager.

The CPAM Team are currently forecast to achieve recurring revenue savings of £568k over the period 2015-16 to 2018-19.

The CPAM team are continuing to prioritise and focus work activities on property rationalisation initiatives, that involve Services and partners, that are anticipated to increase the revenue savings achieved from the Council's operational property portfolio.

#### **Maintenance Costs Avoided**

The Costs Avoided target (£1m) related to future maintenance liabilities of properties that had been sold. However, this was an estimate of future costs and there was no guarantee that the Council would be in a position to meet these costs. Also, because this related to future maintenance, the savings reported did not contribute to the Council's overall financial savings targets.

For the period 2010-11 to 2014-15 the CPAM Team achieved a £12.4m reduction in maintenance liabilities (against a target £5m) from property rationalisation initiatives completed.

- 4.1.1 The Finance Service introduced a new financial system (Integra) in April 2015, which has the potential to include an analysis code for each cost centre with the address of the building. If introduced, and information coded in the system correctly, this will allow the Council to determine the true cost of owning buildings, to identify high cost/financially poor performing buildings 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 allowing officers to set more accurate budget savings targets.
- 4.2 This objective was partly achieved. The process for implementing property projects (new builds and alterations) initially involves CPAM, which develops the proposal with the relevant Council Service. Following approval from the Resources Committee, a project management team is appointed to undertake the new build or alteration.
- 4.2.1 The process used for each stage of property projects is documented, and this complies with good project governance and the Council's Financial Regulations. However, a delay in the Fort William office project (approved in November 2013, but not taken forward until after June 2014) demonstrated the absence of a connection between the planning process and undertaking the project. To resolve this, a new position of Project Manager (Workplace Transformation) officer has been created and filled (March 2015) within the Development and Infrastructure – Property service and will act as a bridge between the agreed property change proposal and the project implementation. However, procedures for this new officer post have yet to be fully developed and documented, which may reduce the effectiveness of this post in the interim.
- 4.2.2 There are 2 property project boards to monitor current projects in Wick, Kingussie, and Fort William. The completed Dingwall project had a separate board and there are also plans for a further board to serve the Inverness project. There is scope to improve efficiency by consolidating all project boards and bringing them under the control of a single governance board for office transformation projects, or the Asset Management Project Board. The latter would require a review of the remit and member composition of the Asset Management Project Board.
- A CPAM report bringing forward this proposal and recommendation has been prepared and submitted for consideration to the Director in June 2014.
- 4.3 This objective was partly achieved. Prior to its closure on 31/03/15 the Council's Corporate Improvement Programme (CIP) supported a transformation programme made up of 8 projects, which included Asset Management.
- Other CIP projects and strategies (e.g. Mobile & Flexible working, Information Management and Customer Engagement, and the Carbon Reduction strategy) had valuable information that was input into the Area property reviews and also to individual property projects. This assisted in determining floor space and facility requirements. Also, other Council priorities, such as Carbon Reduction, will benefit by ensuring the Council uses fewer buildings that are more energy efficient. Future TSP initiatives may include similar information, useful for the Asset Management initiative.
- 4.3.1 The Corporate Property Asset Manager has stated that Asset Management office and area reviews do request available information, such as staff work patterns in the office under review to determine occupancy. While this process is being carried out, the procedures for CPAM are not detailed enough to ensure staff are prompted to collect this data and need to be reviewed in light of the new TSP.
- 4.4 This objective was not achieved. In 2010, the Asset Management Project Board invited CIPFA Property to conduct a review of the Council's approach to asset

management. One action from this work recommended that Service Asset Management Plans were created. The key objective of these plans is to develop and deliver an "Asset Vision", "Strategy" and a Service and Asset "Action Plan" for property for each of the geographical areas under consideration.

This traditional approach to asset management planning was considered by the Asset Management Project Board (AMPB) and an alternative more pragmatic Highland Council "Strategic Area Property Review" approach was agreed by the AMPB on 28/08/12. So far the Inverness Area Asset Management Plan has been agreed by Resources Committee in November 2014, and the Lochaber Area Asset Management Plan was agreed by Resources Committee in May 2015.

- 4.4.1 The AM-Target Operating Model (agreed by Resources Committee in 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. It was agreed that the model would be implemented by December 2011.

The Target Operating Model (TOM) contained 31 recommended actions:-

- Eight of the TOM recommended actions were assigned to the CPAM Team, and seven have been completed. The remaining action has been delayed due to the implementation of a new property asset management information system and resource issues.
- The remaining 23 TOM recommended actions relate to organisational changes in how the Council deals with and treats its (non-housing) property assets. However, the Council has undergone a major organisational change in the period 2013-14 to 2015-16 during which the implementation of the TOM has lost some impetus. The outstanding AM-TOM actions need to be reviewed by Senior DI-Service Management to ensure that the TOM 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.

The outstanding objectives of the target operating model are to ensure that:

- All of the property assets owned or occupied by the Council are considered to be corporate assets. Strategies, policies and key decisions are agreed by the Resources Committee.
- Members are fully engaged in the development of asset policy and the monitoring of performance against targets. Ward business meetings receive regular reports on asset performance and costs such that local Members are able to influence asset rationalisation in their ward.
- Service Directors engage with the Corporate Property Officer to define their current and future property needs. Each Service has nominated a Senior Manager to engage with the Asset Management Team in an "Informed Client" role.
- Joint working between organisations is sufficiently mature to support the sharing of human and financial resources where facilities are jointly occupied.
- There is clear alignment between the asset management strategy and the carbon reduction strategy.
- There is clear integration of the asset management strategy with the other corporate improvement projects particularly mobile and flexible working, information management and customer engagement.

- 4.5 This objective was fully achieved as the Council promotes joint working on asset management through the Highland Public Sector Property Group. This group

includes the Council, Police Scotland, Fire Scotland, the NHS and Highlands and Islands Enterprise. Council approved projects are shared with the group for potential collaboration. Also, the Council reviews possibilities presented by other organisations.

The CPAM Team are leading negotiations with three public sector partners/agencies with a view to their co-location within the Council's new office development in Fort William (due to be operational in Autumn 2017).

The CPAM Team are also leading the engagement with Highland Public Sector Partners, through the Highland Public Sector Property Group, into seeking beneficial co-location opportunities with the Council as part of the Council's CPAM Strategic Area Property Review approach.

## **5. CONCLUSION**

Only one of the objectives has been achieved, and this highlights the Council's lack of progress with the Target Operating Model agreed in 2010. Although the Council has known for 5 years what it had to do to identify a framework, which could be used to capture relevant savings and benefits, it has failed to make significant progress with this.

The Council must better understand its current property costs and also its property needs and then revisit the savings targets in order to set attainable and challenging targets. This will allow the Council to transform its property assets into a lower cost and more efficient portfolio, ensuring the Council is receiving best value from its property. This is particularly important given the Council's need to reduce costs and achieve its savings programme.

There are 4 recommendations in this report, all are classified medium grade. All are due to be fully completed by 31/12/16, with the majority to be completed by 31/03/16.

## **6. AUDIT OPINION**

The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Limited Assurance** can be given in that 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. The levels of assurance and their definitions can be found at Appendix 1.



## 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.	<p>Acting Head of Property, Development &amp; Infrastructure.</p> <p>Corporate Property Asset Manager, Development &amp; Infrastructure</p> <p>Service Finance Managers, Finance Service</p>	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.