



Internal Audit

FINAL

Dacorum Borough Council

Assurance Review of Commercial Asset Management

2020/21

January 2021

Executive Summary




OVERALL ASSESSMENT




ASSURANCE OVER KEY STRATEGIC RISK / OBJECTIVE

No corporate risk specifically listed for this area.

KEY STRATEGIC FINDINGS

-  The Commercial Assets held by the Council, forms a stable asset base with very few if any new additions to the portfolio of properties held.
-  Unfortunately due to the pandemic, rental arrears have increased which is beyond the control of the Council until circumstances change.
-  It is likely, due to COVID 19 and the increase in arrears, that significant write off of debt may become a real issue and should be acknowledged in the Councils budgeting arrangements.

GOOD PRACTICE IDENTIFIED

-  Examination of the various documents and data confirmed that the processes in place for the management of the Council's Commercial Assets was well established and was working well despite the current disruption caused by COVID 19

SCOPE

The review has considered the following key areas:

- How the rental arrangements are being managed and there is a system to prevent failure to apply a rent rise;
- The current portfolio of commercially rented properties and how these are managed/verified are accurate;
- To establish and confirm that all commercial rents are appropriately recorded with trigger dates for rent reviews are in place;
- To establish that the database of commercial properties is accurate and up to date; and
- To sample test a number of commercial properties to confirm that rents are paid in accordance with their agreement.

ACTION POINTS

Urgent	Important	Routine	Operational
0	1	0	0

Assurance - Key Findings and Management Action Plan (MAP)

Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
1	Delivery	<p>The government has passed a moratorium on debt collected that has been supported by the Council. Therefore Officers and Members are aware of the increased debt position for commercial properties. Total outstanding debt at the time of the audit (October 2020) comprises of the following:</p> <ul style="list-style-type: none"> Commercial Rents: £1,337,110.42 less due date not passed £41,972.39; Facilities Hire: £119.00; Caravans: £14,151.21; Due date not passed -£25 Property Management Miscellaneous: £57,820.32 less due date not passed £3,674.76; Commercial Rents other: £22,152.68 less due date not passed £1,039.27; Facilities Hire (Tring) £2,349.55 less due date not passed £643.00. Total aged debt = £1,433,703.18 less due date not passed £47,304.42. <p>Total aged = £1,386,398.76.</p>	As the recovery of some of the accumulated debt may well become unrecoverable, consideration must be given to reflecting this potential loss of income in the Councils future budgeting arrangements.	2	<i>DBC Finance Team have accounted for potential loss of income in next year's budget by allowing an additional £1m for non-collection of rental income.</i>	End of February 2021	Finance Team

PRIORITY GRADINGS

1 URGENT Fundamental control issue on which action should be taken immediately.

2 IMPORTANT Control issue on which action should be taken at the earliest opportunity.

3 ROUTINE Control issue on which action should be taken.

Operational - Effectiveness Matter (OEM) Action Plan

Ref	Risk Area	Finding	Suggested Action	Management Comments
There are no Operational Effectiveness Matters arising.				

ADVISORY NOTE

Operational Effectiveness Matters need to be considered as part of management review of procedures.

Findings



Directed Risk:

Failure to properly direct the service to ensure compliance with the requirements of the organisation.

Ref	Expected Key Risk Mitigation	Effectiveness of arrangements	Cross Reference to MAP	Cross Reference to OEM
GF	Governance Framework There is a documented process instruction which accords with the relevant regulatory guidance, Financial Instructions and Scheme of Delegation.	In Place	-	-
RM	Risk Mitigation The documented process aligns with the mitigating arrangements set out in the corporate risk register.	Out of Scope	-	-
C	Compliance Compliance with statutory, regulatory and policy requirements is demonstrated, with action taken in cases of identified non-compliance.	In Place	-	-

Other Findings

- All previous recommendations raised by Mazars in their two earlier reports, Commercial Asset Management (September 2016) and Commercial Asset Management (Garages) (November) 2018, have been implemented.
- The Asset Management Strategy was due to be refreshed in June 2020 post the publication of the new corporate plan and the climate change strategy. Unfortunately, due to the Covid pandemic, this has been delayed, and as the outlook and expectation of this strategy has changed from expansion and diversification of the portfolio to protection and diversification which will take the strategy in potentially a different direction. This task will be undertaken at a future date to be agreed in the new calendar year when the Council will be able to assess their priorities once the outlook of Covid-19 is better known.
- There is currently no planned increase to the Commercial Asset portfolio and the majority of properties are garages with a number of the other commercial properties only having a peppercorn rent because of either the tenant who occupies the property (charity) or the nature of the lease (utility sub-station).



Delivery Risk:

Failure to deliver the service in an effective manner which meets the requirements of the organisation.

Ref	Expected Key Risk Mitigation	Effectiveness of arrangements	Cross Reference to MAP	Cross Reference to OEM
PM	Performance Monitoring There are agreed KPIs for the process which align with the business plan requirements and are independently monitored, with corrective action taken in a timely manner.	In Place	1	-
FC	Financial Constraint The process operates within the agreed financial budget for the year.	Out of Scope	-	-
R	Resilience Good practice to respond to business interruption events and to enhance the economic, effective and efficient delivery is adopted.	In Place	-	-

Other Findings



The current Asset Management Strategy (January 2016) contained a number of the Key Recommended Actions as follows:

- 1) Review the implementation of the Key Recommended Actions contained within the Asset Management Strategy - this has been completed and the Vauxhall Road Depot is a good example of this.
- 2) Monitor utilization of community assets - Lease Renewals & Rent Reviews for these assets are raised and reviewed in the monthly reports that are run.
- 3) Sustain a proactive maintenance regime - a stock condition survey is used to form the basis of planned repair and maintenance work and the budgeting process annually.
- 4) Adopt a consistent approach to below market rents for the public and 3rd sector - a consistent approach has been adopted. For example community centres remain at nil rent whilst other community leases are held on notional £250 per annum rents.
- 5) Review the property operating model to deliver better performance and decision-making - there is a decision making process in place under Delegated Authority and Portfolio Holder Decision. Any matter that is perceived to be out of the ordinary is also tabled at Property Management Board.
- 6) Review management information collation and performance reporting so the right information is given to decision-makers - Performance Indicators are reviewed annually.

Other Findings



The following projects were identified in the Asset Management Strategy to form part of the forward Delivery Plan. The time scale for these to be delivered was 2016/17.

- 1) The Forum and Market Square: Forum Building is completed and DBC occupy the premises; Market Square: Feasibility ongoing; Ex-Civic Centre – ongoing.
- 2) Land at Maylands: ongoing disposal discussions.
- 3) Garage Portfolio Review: Ongoing project disposals. A new Garage Investment Strategy has been commissioned to be drawn up.
- 4) The Bury: Ongoing as various external funding bids have not been successful. Third Party structural/heritage surveys have been instructed.
- 5) Community Asset Usage: Ongoing e.g. DENS foodbank project.
- 6) Conduct Asset Development Reviews on Under Utilised Assets: Ongoing – see response to point 3 noted above and Vauxhall Road Depot attachment.
- 7) Sustainable and Proactive Maintenance Regime: Stock Condition surveys are undertaken.
- 8) Below Market Rents: There is no formal policy, however, the Council does continue to manage community assets at a subsidised level. The Council does look for opportunities to enhance rental income where possible.
- 9) Property Investment Fund: Ongoing – this is the Asset Management Team's day job.
- 10) Property Management Board: Improved visibility and performance has been achieved and this Board meets monthly.
- 11) Undertake a Management Information Review: The Council's Management Information reporting tool is called 'Asset Manager'. In addition to this, the Geographic Information System (GIS) Cadcorp has been installed.



The pandemic and the Coronavirus Act 2020 with its moratorium on legal debt recovery action has affected the ability for the Council to recover arrears of Commercial Rents as efficiently as had been undertaken prior to the first lockdown at the end of March 2020. Pre-Covid, the Council would escalate debt recovery process after 6 months (two quarters) but the moratorium on legal debt recovery has prevented this. Members have made it clear that the Council should be supportive over and above the Coronavirus Act in the current climate and refrain from taking what may be received as punitive action in a sensitive and difficult time for businesses. Apart from the debt recovery matter Covid 19 and the disruption caused by the pandemic has been well managed by the Commercial Asset Team.



For rent deposits, which does provide some financial security, over failure to pay rent, the Council does request these where practical to do so. The Council may also take both a deposit and a guarantor or neither, as it will depend upon the individual circumstance and lease in question. Deposits will only be held for a fixed term and not necessarily the full length of the lease as it would prohibit commercial activity such as for a new start-up business. The Council's properties are a mix of quality properties and of properties of a certain age where demand can be limited so a flexible and commercial approach to agree lettings is taken. Rental deposits will form part of the negotiation for the lease.

Other Findings



In March 2020, a total of £22,135.24 rent debt was written off, with the following reasons:

- Five for Insolvent;
- Seven for recovery activity exhausted;
- Eight for unable to trace;
- Seven for uneconomical to pursue; and
- 17 for unenforceable debt.

The write offs were appropriately approved, by initially, the Team Leader then the Group Manager and finally the Section 151 Officer, in accordance with Financial Regulations.

EXPLANATORY INFORMATION

Appendix A

Scope and Limitations of the Review

1. The definition of the type of review, the limitations and the responsibilities of management in regard to this review are set out in the Annual Plan. As set out in the Audit Charter, substantive testing is only carried out where this has been agreed with management and unless explicitly shown in the scope no such work has been performed.

Disclaimer

2. The matters raised in this report are only those that came to the attention of the auditor during the course of the review, and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

Effectiveness of arrangements

3. The definitions of the effectiveness of arrangements are set out below. These are based solely upon the audit work performed, assume business as usual, and do not necessarily cover management override or exceptional circumstances.

In place	The control arrangements in place mitigate the risk from arising.
Partially in place	The control arrangements in place only partially mitigate the risk from arising.
Not in place	The control arrangements in place do not effectively mitigate the risk from arising.

Assurance Assessment

4. The definitions of the assurance assessments are:

Substantial Assurance	There is a robust system of internal controls operating effectively to ensure that risks are managed and process objectives achieved.
Reasonable Assurance	The system of internal controls is generally adequate and operating effectively but some improvements are required to ensure that risks are managed and process objectives achieved.
Limited Assurance	The system of internal controls is generally inadequate or not operating effectively and significant improvements are required to ensure that risks are managed and process objectives achieved.
No Assurance	There is a fundamental breakdown or absence of core internal controls requiring immediate action.

Acknowledgement

5. We would like to thank staff for their co-operation and assistance during the course of our work.

Release of Report

6. The table below sets out the history of this report.

Stage	Issued	Response Received
Audit Planning Memorandum:	16th September 2020	23 rd September 2020
Draft Report:	26 th November 2020	12 th January 2021
Final Report:	13 th January 2021	

AUDIT PLANNING MEMORANDUM

Appendix B

Client:	Dacorum Borough Council		
Review:	Commercial Asset Management		
Type of Review:	Assurance	Audit Lead:	Chris Harris

Outline scope (per Annual Plan):	Rationale: Commercial Rents are a major income stream for the Council and an annual audit is required to provide assurance that all rents are collected in accordance with the rental/lease agreement Scope: The review will consider the following key areas: How the rental arrangements are being managed and there is a system to prevent failure to apply a rent rise. The current portfolio of commercially rented properties and how these are managed/verified are accurate. To establish and confirm that all commercial rents are appropriately recorded with trigger dates for rent reviews are in place. To establish that the database of commercial properties is accurate and up to date. To sample test a number of commercial properties to confirm that rents are paid in accordance with their agreement		
Detailed scope will consider:	<p>Directed</p> <p>Governance Framework: There is a documented process instruction which accords with the relevant regulatory guidance, Financial Instructions and Scheme of Delegation.</p> <p>Risk Mitigation: The documented process aligns with the mitigating arrangements set out in the corporate risk register.</p> <p>Compliance: Compliance with statutory, regulatory and policy requirements is demonstrated, with action taken in cases of identified non-compliance.</p>	<p>Delivery</p> <p>Performance monitoring: There are agreed KPIs for the process which align with the business plan requirements and are independently monitored, with corrective action taken in a timely manner.</p> <p>Financial constraint: The process operates with the agreed financial budget for the year.</p> <p>Resilience: Good practice to respond to business interruption events and to enhance the economic, effective and efficient delivery is adopted.</p>	
Requested additions to scope:	(if required then please provide brief detail)		
Exclusions from scope:	None		

Planned Start Date:	12/10/2020	Exit Meeting Date:	09/11/2020	Exit Meeting to be held with:	Richard Rice
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SELF ASSESSMENT RESPONSE

Matters over the previous 12 months relating to activity to be reviewed	Y/N (if Y then please provide brief details separately)
Has there been any reduction in the effectiveness of the internal controls due to staff absences through sickness and/or vacancies etc?	
Have there been any breakdowns in the internal controls resulting in disciplinary action or similar?	
Have there been any significant changes to the process?	
Are there any particular matters/periods of time you would like the review to consider?	

