

Report to:	AUDIT COMMITTEE
Relevant Officer:	Nick Gerrard – Growth and Prosperity Programme Director Paul Jones – Head of Property Services
Meeting:	21 July 2022

MANAGEMENT OF INVESTMENT PROPERTIES AUDIT FOLLOW UP

1.0 Purpose of the report:

1.1 To consider a progress report on the recommendations made in the internal audit report of Management of Investment Properties issued on the 24 September 2021.

2.0 Recommendation(s):

2.1 To consider the actions being implemented to address the audit recommendations relating to the Management of Investment Properties audit.

3.0 Reasons for recommendation(s):

3.1 To enable the Audit Committee to consider an update and progress report on the audit recommendations.

3.2 Is the recommendation contrary to a plan or strategy adopted or approved by the Council? No

3.3 Is the recommendation in accordance with the Council's approved budget? Yes

4.0 Other alternative options to be considered:

4.1 N/A.

5.0 Council priority:

5.1 The relevant Council priority is economy.

6.0 Background information

6.1 Local authorities can purchase commercial property for a range of reasons, for example to support local regeneration or growth. However, a key motive for many local authorities in their investments in commercial property has been to generate rental income in order to

offset reductions in their funding. Blackpool Council follow this mixed economy approach. Blackpool Council has a portfolio of commercial properties that generate a financial return, but which also contribute to other priorities, in particular supporting the local economy.

Local authorities have the legal power to invest in investment properties, however they also need to ensure that exercising its powers is carried out in line with relevant statutory guidance and professional codes of practice. CIPFAs Prudential Property Investment Guidance 2019 sets these out as:

- The application of case law principles concerning the reasonableness of decision making;
- Statutory guidance issued by the government (DLUHC's Statutory Guidance on Local Government Investments and Statutory Guidance on Minimum Revenue Provision);
- The CIPFA Prudential Code; and
- Good practice in investment management, which considers the appropriateness of investments to the authority's risk appetite, its financial circumstances and the expected length of the investment need.

In 2017 the Local Government Association (LGA) published practical guidance on how local authorities could turn their commercial plans into reality. The guidance described trading and commercial property activity as "a particularly specialist activity where advice should be sought, if necessary, from a range of experts such as lawyers, property experts and accountants. Councils considering investment activity should be clear around long term risk and benefit modelling, governance and what specialist capabilities may be required to support the activity. They should be aware of the accumulated effect of every decision they take as well as the risks of each individual decision".

6.2 The scope and assurance statement of the audit was as follows:

Scope

The scope of our audit was to review:

- Investment decision process, including due diligence;
- Compliance with legislation and regulations;
- Management of the investment property portfolio; and
- On-going assessment of and review of investment properties against projected outcomes.

Assurance Statement

Internal Audit found the controls related to Property Services to be largely adequate, but did however consider that the controls relevant to the scope of this audit and in place within the relatively new service of Growth and Prosperity were inadequate. They recommended that Growth and Prosperity's processes required significant tightening to ensure that the Council

maintains a clear and comprehensive audit trail of all investment property purchasing decisions and their on-going management and oversight and much work has been subsequently undertaken to address the issues raised.

In addition, the impact of the pandemic on the Council's investment portfolio presents a financial risk which will need to be effectively managed throughout the recovery phase.

6.3 Does the information submitted include any exempt information? No

7.0 List of Appendices:

7.1 Appendix 3(a): Internal Audit Recommendations and Agreed Actions and Progress.

8.0 Financial considerations:

8.1 The controls being implemented will be done so within current budget constraints.

9.0 Legal considerations:

9.1 Risks need to be effectively managed in order to comply with relevant legislation.

10.0 Risk management considerations:

10.1 To enable the Audit Committee to gain assurance that risks are being effectively managed.

11.0 Equalities considerations:

11.1 Where equality analysis is appropriate these will have been undertaken whilst making decisions relating to the subject.

12.0 Sustainability, climate change and environmental considerations:

12.1 Any matters relating to sustainability, climate change and environmental considerations will be considered when making decisions relating to the subject.

13.0 Internal/external consultation undertaken:

13.1 The progress report has been prepared in conjunction with the relevant Heads of Service and Chief Officer.

14.0 Background papers:

14.1 None.

Appendix 3(a) - Agreed Action Plan

<i>Recommendation</i>	<i>Priority</i>	<i>Agreed Action</i>	<i>Responsible officer</i>	<i>Target Date</i>	<i>Progress</i>	
Joint Recommendations (Growth and Prosperity and Property Services)						
<i>R1</i>	We recommend that the Property Investment Strategy is reviewed to ensure consistency and completeness with current and best practice and with other Council strategies and plans.	2	Agreed.	Head of Property Services / Growth and Prosperity Programme Director	March 2022	Reviewed and included in the Treasury Management Strategy approved by Executive in February 2022
<i>R2</i>	We recommend that roles and responsibilities of Property Services and G&P in particular post-purchase are defined within the Corporate Asset Management plan, this clarification should include mechanisms to aid consistency of approach.	2	Agreed. The Corporate Asset Management Plan is being updated and a discussion around roles and responsibilities will take place as part of this review.	Head of Property Services / Growth and Prosperity Programme Director	March 2022	These have been incorporated in the revised version of the document which will be reviewed by the Corporate Asset Management Group prior to being reported to the Executive in the autumn

<i>Recommendation</i>		<i>Priority</i>	<i>Agreed Action</i>	<i>Responsible officer</i>	<i>Target Date</i>	<i>Progress</i>
R3	We recommend that the Corporate Asset Management Plan identifies and details post purchase management/oversight arrangements including depth of arrangements depending on types and value of properties.	2	Agreed.	Head of Property Services / Growth and Prosperity Programme Director	March 2022	These have been incorporated in the revised version of the document which will be reviewed by the Corporate Asset Management Group prior to being reported to the Executive in the autumn
R4	We recommend that the current asset management plan is reviewed and updated for completeness and is regularly reviewed.	2	Agreed.	Head of Property Services / Growth and Prosperity Programme Director	March 2022	The revised version of the document will be reviewed by the Corporate Asset Management Group prior to being reported to the Executive in the autumn and reviewed regularly thereafter

<i>Recommendation</i>	<i>Priority</i>	<i>Agreed Action</i>	<i>Responsible officer</i>	<i>Target Date</i>	<i>Progress</i>	
Property Services Recommendations						
R5	We recommend the Council reviews its transparency arrangements regarding its properties and land in particular its investment property holdings to ensure that the Blackpool residents are sufficiently informed about investments that its Council have made.	2	Agreed. The way in which the Council publishes this data will be reviewed.	Head of Property Services	March 2022	<p>Vacant land and property available to lease or purchased are advertised on the Council website.</p> <p>The asset list of Council owned land and property will be published on the Council website, identifying the current use of the building and if currently vacant or underused.</p>
R6	We recommend Property Services document their purchasing process to capture the main components, including the level of finance and legal due diligence to be undertaken.	2	Agreed.	Head of Property Services	March 2022	<p>The process flow with key milestones and components for the purchase of land or property investments is jointly being produced for G&P and Property Services.</p>

<i>Recommendation</i>	<i>Priority</i>	<i>Agreed Action</i>	<i>Responsible officer</i>	<i>Target Date</i>	<i>Progress</i>	
Growth and Prosperity Recommendations						
R7	We recommend clarification of G&P's business planning process and a timetabled process to finalise their Strategic Plan.	3	Agreed. The Growth and Prosperity Team feature in the Communication and Regeneration Directorates Business Plan. Therefore no further action is required on this. However the Strategic Plan, which will be a marketing document, has yet to be finalised.	Growth and Prosperity Programme Director	March 2022	Completed: G&P Marketing document completed May 2022.

<i>Recommendation</i>		<i>Priority</i>	<i>Agreed Action</i>	<i>Responsible officer</i>	<i>Target Date</i>	<i>Progress</i>
<i>R8</i>	We recommend a fundamental review of records and file maintenance within G&P to ensure a clear, consistent and complete record is maintained of all investment properties.	1	Agreed. The G&P Team will review their file structure in the first instance and then liaise with relevant support services such as legal and finance to develop a process to capture a complete audit trail.	Growth and Prosperity Programme Director	March 2022	Completed. Following a review with Finance and Legal who both use their own departmental systems it has now been agreed to create shared Teams folders on Sharepoint for complex acquisition projects and all files are saved in this folder in addition to the separate systems held by each department. This system is now live.
<i>R9</i>	We recommend the process diagram and roles and responsibilities documents be reviewed to ensure they represent and reflect actual practice within G&P.	2	Agreed.	Growth and Prosperity Programme Director	March 2022	Completed. Document reviewed and updated in June 2022

Recommendation		Priority	Agreed Action	Responsible officer	Target Date	Progress
<i>R10</i>	We recommend whenever possible Executive Decision papers provide key metrics on decisions particularly when there is any divergence from agreed policy, including exit strategies.	2	Due to commercial sensitivities it is not always possible to publish all data. Where this is the case elected members will be provided with confidential information which is not published in the public domain.	Growth and Prosperity Programme Director	Ongoing	Completed. Now ongoing.
<i>R11</i>	We recommend that the supporting legal decision not to establish a company for Ribble House be confirmed.	2	Agreed. A copy of the legal advice will be located and stored on file.	Growth and Prosperity Programme Director	November 2021	This was agreed at G&P Board following advice from legal and finance, reaffirmed and a written note included on file.
<i>R12</i>	We recommend review of the G&P risk register to ensure all potential risks considered in the risk register.	2	Agreed. Reference will also be made to the various project risk registers which are now in place.	Growth and Prosperity Programme Director	September 2021	Completed. Ongoing and updated every 6 months (most recently in April 10th, 2022

<i>Recommendation</i>		<i>Priority</i>	<i>Agreed Action</i>	<i>Responsible officer</i>	<i>Target Date</i>	<i>Progress</i>
<i>R13</i>	We recommend that training options are considered for relevant Members.	3	Consideration will be given to the merits of delivering such training.	Growth and Prosperity Programme Director	March 2022	Ongoing relevant training needs for Elected Members concerning the Growth and Prosperity programme are kept under consideration
<i>R14</i>	The due diligence/risk assessment process followed on purchases should be consistently documented and some brief guidance/template may be of value.	2	Agreed. This will be linked to the implementation of recommendation 9.	Growth and Prosperity Programme Director	March 2022	Completed Risk Register Template produced which is now in use to which contributions are also made by finance and legal. The completed document is attached to Executive reports.