

Management of the Disposal of Property

Isle of Wight Council

Audit 2004-2005

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Introduction

- 1 This document reports the findings of the Audit Commission's review of the Isle of Wight Council's arrangements for managing the disposal of its land and buildings. The findings are based on evidence collected in March 2005, prior to the Council's change of political administration following the elections in May 2005.

Background

- 2 The Council owns a large property portfolio that comprises mainly of property used to deliver the Council's services, such as education and social services. It has very little commercial property held for investment purposes. The property holdings have an estimated value of £160 million. The Council was established in 1995 as a unitary council from the two former district councils and the county council. This has provided the Council with opportunities for the rationalisation of its combined property stock. The Council typically receives capital receipts in the region of £2 million per year from the sale of land and buildings it no longer requires, or that it releases for other community benefits, such as to support the local economy.
- 3 In recent years, the Council has faced many challenges, from within its own organisation and from external stakeholders, on whether the sale of individual land and buildings assets provides best value. These challenges continue despite the Council's efforts to tighten-up its internal procedures governing the conduct of its property transactions.
- 4 It is against this background that the Audit Commission and the Council agreed to an independent assessment of the Council's arrangements for the disposal of land and buildings.

Audit approach

- 5 This project comprised:
 - an initial set-up meeting with the Council's Strategic Director and Head of Property to agree the scope of the project;
 - an examination of relevant documentation provided by the Council;
 - interviews with councillors, managers and staff and other stakeholders with an involvement or interest in property disposals;
 - initial feedback to the Chief Executive on the provisional findings;
 - presentation of the findings of the review to the Council in the form of a draft report for comment; and
 - a final report.

Summary

- 6 Some areas of the Council's approach to managing property transactions are sound. It:
- disposes of property that it no longer requires;
 - makes reasonable efforts to try to maximise the value of surplus property assets prior to their disposal;
 - works in partnership with other public service agencies operating on the island to identify opportunities for combining property transactions;
 - has clear information about its past, current and future property disposals; and
 - has robust procedural rules governing the way that property transactions are conducted.
- 7 However, there are areas where significant improvements can be made in the way the Council manages its property transactions. It needs to develop:
- an up-to-date strategic plan for the management of the Council's property assets;
 - separate operational management decisions by staff from strategic decisions by councillors on property matters;
 - the consistent use of its scrutiny arrangements on property transactions to best effect;
 - constructive and harmonious relationships between key property professional staff and some councillors;
 - clear arrangements to ensure that all relevant councillors are informed clearly about how and why the Council conducts property transactions in the way that it does;
 - methods to maintain good communications with the local community on its property transactions;
 - arrangements that ensure that service planning and strategic asset management is being fulfilled in the property services section;
 - resources to match the delivery of its programme of property disposal work to the quantity of work; and
 - methods that follow the disciplines of project management in its approach to its property disposals.

Recommendations

8 The Council is recommended to:

Develop a new asset management plan, using the Council's new constitutional arrangements, that sets out how it will manage its property assets to maximises their contribution to delivering services to users and meeting wider corporate objectives by:

R1 engaging the cabinet councillor with responsibility for resources, audit and efficiency in setting the policy framework and strategic direction for the asset management plan;

R2 encompassing the implications of the Council's proposals for future service delivery, including integration with health partners, the Island regeneration plan, and the Local Delivery Vehicle, the Highways Private Finance Initiative and strategic partnerships;

R3 incorporating internal and external challenge through the Council's scrutiny and audit arrangements;

R4 providing a dedicated focus on strategic asset management within the management structure by separating this activity and role from operational property service delivery;

R5 establishing a clear divide between the policy role of councillors and operational decision-making by staff;

R6 capturing the engagement of stakeholders, councillors and staff across the organisation in its development and implementation;

R7 reviewing the principles and effectiveness of the Council's use of claw-back provisions in property disposal contracts; and

R8 committing the Council to providing the resources it needs to deliver the asset management plan.

Ensure that relevant councillors and staff across the organisation are kept appropriately informed about how the Council manages its property portfolio by:

R9 delivering externally provided training on the principles and disciplines of local authority property management and the Council's arrangements for asset management;

R10 put in place arrangements for capturing learning from past performance and sharing and applying it to future work;

R11 developing service standards that clearly set out what standard of service should be expected from the property services section; and

R12 making it clear what are the respective roles of councillors, service managers and property services staff on property transactions.

Provide a more disciplined approach to managing the delivery of the Council's property transactions and property contracts by:

R13 ensuring that there is managerial capacity for service planning, service delivery and management of resources;

R14 structuring property transaction projects under a clearly defined project structure with key roles, accountabilities and reporting lines;

R15 introducing quality assurance and challenge at key stages in the process:

R16 enhancing communications to stakeholders about property transaction proposals; and

R17 being clear about the business case for the property proposal, which contains the justification for undertaking the project, the reasons for choices made on the alternative options, with the costs, risks and the expected benefits.

Conclusions

Areas of strength

- 9 The Council takes opportunities to sell property that it no longer requires. Capital property assets are not 'hoarded' by the Council on the basis of principle. When a property is no longer required or could be put to better use or to support another need, then the Council releases the property for that purpose. Property disposals form an important source of capital income to the Council in order to support its spending plans. The Council knows what property it owns and has basic information about it on a central database. It sets annual income targets from capital receipts and these are generally met within reasonable tolerances and taking into account the local property market conditions.
- 10 The Council makes reasonable efforts to try to maximise the value of surplus property assets prior to their disposal. This includes an evaluation of the potential future uses of the property and gaining planning application for alternative uses prior to sale to improve its marketability and value to potential buyers. The Council's property service staff liaise with planning staff on this. The Council also takes advice from local estate agencies and its own property professional staff have a sound knowledge and extensive experience of the local property market. The Council occasionally makes special provision within its sale contracts to secure a share in future profits from a property by using 'clawback' clauses. However, it has had mixed success with using these clauses.

- 11 The Council works in partnership with other public service agencies operating on the island to identify opportunities for combining property transactions. It does this by transferring property between public agencies or joining with other property owners to form a single property package to increase the combined value or to provide some other benefit. The Council uses this approach on regeneration schemes, on joint provision of services such as with the Primary Care Trust. It also maintains close contact with the Home Office on the plans it has for the property it owns on the island.
- 12 The Council has clear information about its past, current and future property disposals. This is widely communicated within the Council. Records of property disposals, proposed and completed, are listed and regularly reported to councillors without releasing commercially sensitive information that might affect the market value of the property.
- 13 The Council has robust procedural arrangements governing the way that property transactions are conducted. In addition to the Council's financial regulations and the professional standards for surveyors, it also has adopted a code of practice for councillors and staff dealing with property transactions. This sets out the process that will be followed on property disposals and the respective roles of councillors and staff and reinforces the separate rules on declarations of interest.

Areas for service development

- 14 The current policy framework for the strategic management of the existing property assets is out-of-date. The Council does have an asset management plan, but this was formulated in 2002 and no longer drives the management of the property portfolio to ensure that it fully meets the current and future needs and priorities of the Council. The need for an up-to-date asset management plan is a growing imperative because of the following.
 - The current asset management plan does not reflect the needs and priorities of the service departments, and as such, it does not influence the way that service property is managed across the organisation.
 - During the course of this review, local elections resulted in a change to the political administration of the Council. Although a new Community Strategy and Corporate Plan have yet to be adopted, the manifesto of the new administration makes commitments that will affect the Council's property portfolio.
 - The disposal of surplus property assets are an important component of the Council's targets to meet the Government efficiency savings and asset management also forms part of the use of resources element of the comprehensive performance assessment.

- The asset management plan will need to be a driver for delivering significant policy objectives, notably the Council's proposals for integration with health service partners, regeneration initiatives such as the Island Plan, the Local Delivery Vehicle, schools' reorganisation and Highways Public Finance Initiative proposals. From an operational perspective, the asset management plan must also reflect any proposals for entering into a strategic partnership for delivering the Council's services, and whether its property services function forms part of this contract.
 - The new administration is proposing to direct changes to the culture of the organisation, particularly by clarifying the respective roles of councillors (to set strategy and govern) and officers (to advise and manage). A clear policy on how the Council plans to manage its property assets determined and agreed by councillors and service departments at the outset would help to give staff a clear focus for their efforts and set the operational boundaries between their work and that of the councillors and service departments.
 - The asset management plan would provide a framework for decision making by councillors within a complex policy context, irrespective of their political allegiances. It will help set the agenda to deliver the objectives outlined above and the Council's other corporate priorities, and commit it to providing the resources necessary to achieve this.
- 15** The Council's practice on property transactions demonstrates a blurred distinction between operational management decisions by staff and strategic decisions by councillors on property matters. Prior to the change in administration, the former portfolio holder for resources was regularly involved in detailed day-to-day decisions on property transactions. One of the consequences of this is that too many operational decisions were being brought into the political arena and without a clear policy framework to guide the debate. This creates divisions and holds up progress on projects or indeed jeopardises the project completely. This focus on detailed transactions also means that the portfolio holder has less time to fulfil the role of championing the need for corporate working on asset management across the Council's service departments. The commitment by the new administration to deliver appropriate and distinct roles for officers and councillors will provide an opportunity to address this issue.
- 16** The Council does not have a track record of always using its scrutiny arrangements on property transactions to best effect. The Council's former Resources Select Committee called in a high proportion of the cabinet's decisions on property disposals. Many of these call-ins concern matters that could be dealt with through discussion outside of the Committee. For instance, there are incidences where the Committee's scrutiny function was being used to clarify points of detail on individual property transactions. This means that less time is available for the Committee to deal with more strategic issues within a planned work programme that would add value to the Council's work.

- 17 The Council is not consistently achieving constructive and harmonious relationships between key property professional staff and some councillors. Some councillors express a lack of confidence in the information they are given about property transactions. Some councillors cite that too many reports from property staff contain erroneous information and when this is discovered councillors are not satisfied with the explanation of the reasons for the mistakes. Likewise, some councillors said they do not trust the advice they receive from property staff and discussions at committee are reported by people present at meetings as being fractious. Sometimes these discussions allude to improper practices on property disposals, although the Audit Commission has found no evidence to support these claims.
- 18 Some councillors involved in or who have a special interest in property transactions have a limited understanding of how and why the Council conducts the work in the way that it does. Training on this has been offered. However, this has not been fully effective in raising the level of understanding of the principles of local authority property management, the information that is available about the Council's property and the proper practices that must be followed in property disposals.
- 19 Occasionally, the discussion of unresolved contentious and sensitive property issues by councillors are conducted in public without consideration of the damaging impact this has on the reputation of the Council. This often results in negative stories in the local press about how the Council conducts its business. Not only does this damage the reputation of the Council and its role on leading its community but also risks putting off developers from engaging with the Council. Private sector developers are less likely to want to do business with an organisation where complex property transactions are made more difficult by a council partner that has internal difficulties that delay progress, sap resources and attract adverse publicity. The consequence of this could potentially result in reducing the market value of the Council's property.
- 20 Although the Council has allocated roles for staff management and property management to specific posts within the property services section, this is not being followed in practice. Staff who are meant to be fully engaged on strategic asset management are spending their time on day-to-day operational delivery of professional property services such as the negotiations on the sale of individual property. Likewise, staff appointed to manage the property service are occupied with running property projects and resolving day to day operational issues at the cost of providing forward planning, direction and managerial support to the service and its staff. The immediacy of day to day issues takes precedence over strategic property management and business planning. The result is that there is a lack of strategic direction in terms of the way the Council manages its property portfolio and in the service planning for its professional property services.

- 21** The Council does not ensure that its capacity to deliver its programme of property disposal work is adequately resourced. The quantity and complexity of the work undertaken by the property services section varies from year-to-year, but the resource levels are not varied to suit. The service operates on a fixed budget to pay for staff salaries and overheads. This is not adjusted according to the amount of work. The consequence is that the service may be over resourced during troughs in workload or under-resourced during peaks.
- 22** The Council does not follow the disciplines of project management in its approach to its property disposals. Property disposals do not always have a written business case justifying the reasons for the disposal in terms of the benefits and risks to the Council and the community, with a clear operational framework for conducting the disposal. The activities, timescales, responsibilities and resources necessary to deliver the work are not established at the outset of the project. Nor does the Council review at the end of the property disposal project whether the original business objectives have been met and whether there are any lessons to be learnt about how the work was conducted.

Appendix 1 - Action plan

This action plan has been completed by the Council to show how it proposes to implement the recommendations in the report. The initials in the responsibility column identify the Council's staff.

Page no.	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Develop a new asset management plan, using the Council's new constitutional arrangements, that sets out how it will manage its property assets to maximises their contribution to delivering services to users and meeting wider corporate objectives by:						
6	R1 Engaging the cabinet councillor with responsibility for resources, audit and efficiency in setting the policy framework and strategic direction for the asset management plan.	3	TF/BC	✓	The appointment of a member panel to support the Cabinet member is in hand and will include the release of resources to appoint a supporting advisor. Report dated 31 October (18/05) outlines how this will be achieved.	31 March 2006

Page no.	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R2 Encompassing the implications of the Council's proposals for future service delivery, including integration with health partners, the Island regeneration plan, and the Local Delivery Vehicle, the Highways Private Finance Initiative and strategic partnerships.	3	MF/DR/TF/BC	✓	The development of an Integrated Property Asset Management Plan will be discussed with partners to establish commitment and timescales for this approach.	June 2006
6	R3 Incorporating internal and external challenge through the Council's scrutiny and audit arrangements.	1	JL/TF	✓	Will require member training and support and the issues placing on the Commission's work plan.	June 2006
6	R4 Providing a dedicated focus on strategic asset management within the management structure by separating this activity and role from operational property service delivery.	3	HoR/BC	✓	The focus on strategic asset management will be developed within the Regeneration Service.	February 2006

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Page no.	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R5 Establishing a clear divide between the policy role of councillors and operational decision-making by staff.	3	MF/JL	✓	The role of members will need to develop within the governance framework for Cabinet and Commission's members.	January 2006
6	R6 Capturing the engagement of stakeholders, councillors and staff across the organisation in its development and implementation.	2	TF/BC	✓	The development of service and community planning will assist the delivery of service improvement and will rely on the continued use of incentives where appropriate to meet strategic needs.	June 2006
6	R7 Reviewing the principles and effectiveness of the Council's use of claw-back provisions in property disposal contracts.	1	JL/TF	✓	To review the existing agreements and to align future provisions with known best practice.	March 2006

Page no.	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R8 Committing the Council to providing the resources it needs to deliver the asset management plan.	3	PW/DR/TF/BC	✓	The availability of a resource plan will be an essential part of this, together with the use of income from the capital receipts programme, to include the appointment of an external advisor.	December 2005
Ensure that relevant councillors and staff across the organisation are kept appropriately informed about how the Council manages its property portfolio by:						
6	R9 Delivering externally provided training on the principles and disciplines of local authority property management and the Council's arrangements for asset management.	2	TF/BC	✓	This approach will be supported by the appointment of a supporting advisor for the development of the Strategic Asset Management Plan.	May 2006
6	R10 Put in place arrangements for capturing learning from past performance and sharing and applying it to future work.	1	JL/TF	✓	Review of disposal policy linked to the Council's constitution and Strategic Asset Management Plan.	September 2006

Page no.	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
6	R11 Developing service standards that clearly set out what standard of service should be expected from the property services section.	1	BC	✓	Establish a set of quality controlled procedures based on best practice.	June 2006
6	R12 Making it clear what are the respective roles of councillors, service managers and property services staff on property transactions.	3	JL/TF	✓	There will be a need to monitor the respective roles to ensure these are maintained during the course of property transactions.	March 2006
Provide a more disciplined approach to managing the delivery of the Council's property transactions and property contracts by:						
7	R13 Ensuring that there is managerial capacity for service planning, service delivery and management of resources.	3	PW/DR	✓	The use of income from capital receipts for the delivery of this service area will be essential to ensure there is not an adverse impact on revenue budgets.	March 2006

Page no.	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R14 Structuring property transaction projects under a clearly defined project structure with key roles, accountabilities and reporting lines.	2	TF/BC	✓	These procedures will be developed as part of the disposals policy linked to the Strategic Asset Management Plan, the quality systems identified in recommendation 11 and will be monitored.	June 2006
7	R15 Introducing quality assurance and challenge at key stages in the process.	2	BC	✓	This approach will tie in with the work in recommendation 11.	September 2006
7	R16 Enhancing communications to stakeholders about property transaction proposals.	2	HoR/TF/BC	✓	This links to the Council's current reporting practices about the capital receipts programme and will need to form part of the quality control system.	December 2006

Page no.	Recommendations	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R17 Being clear about the business case for the property proposal, which contains the justification for undertaking the project, the reasons for choices made on the alternative options, with the costs, risks and the expected benefits	3	PW/TF/BC	✓	The development of appraisal techniques which provide supporting data and analysis of options will need to be clearly set out in reports following a consistent methodology which is supported by colleagues in the Chief Executive's Department.	February 2006