

# Audit Committee

9<sup>th</sup> July 2024



<b>Title</b>	Public Interest Report Recommendations – Action Plan
<b>Purpose of the report</b>	To provide an update on the proposed actions to address recommendations in the Public Interest Report (PIR)
<b>Report Author</b>	<i>Coralie Holman, Group Head Assets</i>
<b>Ward(s) Affected</b>	All Wards
<b>Exempt</b>	No
<b>Exemption Reason</b>	N/A
<b>Corporate Priority</b>	This item is not in the current list of Corporate Priorities but still requires a formal update to be provided to the Audit Committee.
<b>Recommendations</b>	<b>Committee is asked to:</b> To note the update and actions following on from the July 2023 report setting out the proposed actions in response to the recommendations within the Public Interest Report.
<b>Reason for Recommendation</b>	To ensure the Audit Committee have been fully updated on progress in respect of the actions responding to the recommendations within the PIR report.

## 1. Summary of the report

What is the situation	Why we want to do something
<ul style="list-style-type: none"> <li>In December 2022 the Council agreed a response to the KPMG PIR report</li> <li>In July 2023 an action plan was agreed by Audit committee to develop an amended strategy to monitor performance of the Council’s investment portfolio and mitigate risk</li> </ul>	<ul style="list-style-type: none"> <li>Ensure wider governance and assist Councillor understanding.</li> <li>Ensure greater reporting, engagement with and involvement of Councillors within strategic decision making</li> </ul>
This is what we want to do about it	These are the next steps
<ul style="list-style-type: none"> <li>Note the work undertaken in order to monitor and action the risk</li> </ul>	<ul style="list-style-type: none"> <li>Continue to progress a proactive asset management approach including greater reporting,</li> </ul>

<p>attached to the Council's investment portfolio.</p>	<p>engagement with and involvement of Councillors within strategic decision making</p>
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## 2. Key issues

### *History*

- 2.1 On 8th December 2022, the Council considered and agreed a response to the recommendations made within the Public Interest Report (*PIR*) issued by KPMG. This report focused on acquisitions of investment assets made in the period up to 2018/19. Since 2018, the Council has not made any investment asset acquisitions.
- 2.2 KPMG made 5 recommendations which were accepted by the Council. Recommendations 1-3 which focused on legal matters were considered to have been fully addressed at the time a report was taken to Audit Committee in March 2023 providing an update on the 5 recommendations. The March 2023 report advised further work would be undertaken to build on work the Council was already doing to fully address recommendations 4 & 5 which were largely focused on Assets related issues
- 2.3 In July 2023 a further report was taken to Audit Committee setting out in detail, a strategy for monitoring the rental income performance of the investment portfolio, mitigating risk, and producing a suite of KPIs that determine the success of this performance and connected risk. At this meeting Audit Committee approved the strategy.
- 2.4 This current report provides an update on the strategy approved in July 2023 and relates to recommendations 4 & 5 only of the PIR report.
- 2.5 Recommendation 4 of the PIR set out **“The Council should develop its investment property portfolio modelling to bring these in line with the expected practice of an institutional investor. This should include robust stress testing and sensitivity analysis which incorporates scenarios that cover the highest level of risk for expenditure, revenue, tenant behaviour and external socio-economic factors. Consideration should also be given to the diversification of the portfolio and whether this should be addressed over medium to longer term.”**
- 2.6 Recommendation 5 of the PIR set out, **The Council should develop an action plan as part of the management of its investment portfolio which addresses each of the weaknesses identified in paragraph 6.9 (of the PIR). It was suggested this action plan should be linked to a portfolio risk register, which monitors each of the KPIs, tenant performance and risk to the debt repayment strategy for each investment property asset.**

## 3. Current position

- 3.1 Some 12 months later the strategy has been implemented with the actions below, having been undertaken, completed, and approved either Full Council or the relevant Council committee or in the process of being progressed, in order to monitor and action the risk attached to the Council's Investment Assets.

- Sinking Fund earmarked reserves modelling – *an initial refresh of modelling has been completed, councillors will shortly be briefed on this.*
- Suite of appropriate Key Performance Indicators (KPIs), now incorporated into the 2024 – 2028 Asset Management Plan – *completed.*
- Assets specific risk register - with focus on tenancy performance and risk to the debt repayment strategy for each investment property asset. Will be published as part of 2024 – 2028 Asset Management Plan – *completed.*
- New Suite of Asset Management documents - *completed.*

3.2 The new suite of Asset Management documents (the structure of which is shown below) is in a form agreed with Councillors as part of active Councillor/Officer focused workshops. Councillors set the overarching Asset Management Strategy and the operational aspects of this are detailed in the Asset Management Plan, which sets out how officers will undertake day to day operations. This suite of documents which includes the Risk Register and KPIs (within the Asset Management Plan), provides a robust explanation of how each of the 3 Council's asset portfolios are managed, and how the portfolios interlink to meet the 3 objectives set out below:

- Support delivery of the Council's front-line services.
- Contribute to delivery our Corporate Plan objectives.
- Achieve and demonstrate best value in everything we do (best value not always being financial).



3.3 The Council has always proactively and competently managed its land and property holdings. This is specifically demonstrated by collection rates for invoiced rental even throughout the Pandemic and Cost of Living crisis always being in excess of 99% and the current void rate being 9.72% compared to

the wider South East Office market at 21.9% (MSCI data). The relationships nurtured with tenants has been a key part of achieving such high levels of rent collection. The outputs from the proactive asset management approach are monitored against the KPIs which are then reported mid-way through and at the end of the financial year via the Investment report.

#### **4. Next Steps**

- 4.1 Re-assurance of the proactive approach by the Council's internal team was and will continue to be needed via independent reviews (latest being in December 2023 by Jones Lang LaSalle), greater reporting, and engagement with and involvement of Councillors within strategic decision making. This will ensure wider governance and assist Councillor understanding. Specifically, the reporting approach will provide an initial outlook at the priorities of the forthcoming year via the Asset Investment Strategy at the beginning of each financial year. A mid-year investment report in the autumn each year and end of financial year reporting in the form of an annual investment review in the summer each year.
- 4.2 Councillor guidance, scrutiny and decision making will be further enhanced from June 2024 with the Development Sub Committee, which previously focused on both the Investment and Development portfolios being replaced with two new committees, The Commercial Assets Sub Committee (CASC) and Business Infrastructure & Growth Committee (BIG). Whilst BIG will not focus on the Commercial Assets, CASC will have a bespoke focus on all matters 'commercial' and once fully formed will include at least one external member with specialist property knowledge to provide scrutiny and further support Councillor understanding in advance of decision making.
- 4.3 Where appropriate specialist external consultants will also be invited to present work, they have undertaken at the CASC meetings to ensure Councillors have the ability to ask questions and seek clarity on as aspect of the work undertaken.

#### **5. Options**

- 5.1 Note the comments within this report to enable the new strategy to continue to be progressed as set out within this report - **This is the recommended option.**
- 5.2 Seek changes to be made to the current strategy. **This is not the recommended option** because the new suite of documents and approach to reporting and governance has been developed and agreed via officer and member workshops and approved by Full Council or the relevant Council Committee.

#### **6. Financial Implications**

- 6.1 There are no direct financial implications connected to this 'to note' report.

#### **7. Risk management comments**

- 7.1 None

#### **8. Procurement comments**

- 8.1 None

#### **9. Legal comments**

- 9.1 The Local Audit and Accountability Act 2014 (“2014 Act”) governs and prescribes the way in which the Council should deal with an external auditor’s formal Report in the Public Interest.
- 9.2 The recommendation in this report demonstrates that the Council has considered the Public Interest Report in accordance with the 2014 Act and is taking the necessary action to address matters raised regarding management of the investment portfolio in a longer-term financial model.

**10. Other considerations**

- 10.1 None at this stage.

**11. Equality and Diversity**

- 9.1 Not applicable.

**12. Sustainability/Climate Change Implications**

- 12.1 Not applicable

**13. Timetable for implementation**

- 13.1 The strategy has already been implemented and adopted as an on-going workstream.

**14. Contact**

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**Background papers:**

Asset Management Strategy

<https://www.spelthorne.gov.uk/assetmanagementstrategy>

Asset Management Plan <https://www.spelthorne.gov.uk/article/19655/Asset-Management-Plan>