



Internal Audit Report

Communities, Housing and Infrastructure

Council Owned Land and Property

Issued to:

Bernadette Marjoram, Interim Director of Communities, Housing and Infrastructure
Richard Ellis, Interim Depute Chief Executive (Director of Corporate Governance)
John Quinn, Head of Land and Property Assets
Fraser Bell, Head of Legal and Democratic Services
Steven Whyte, Head of Finance
External Audit

EXECUTIVE SUMMARY

The Council holds a wide portfolio of Land and Property that supports a range of services. Amongst other functions, the Land and Property Assets Service is responsible for the valuation, acquisition and disposal of the Council's Land and Property.

As at 31 March 2016, Operational Land and Buildings including Council Dwellings had a net book value of £1.838 billion. The Council also held £85.9 million of Investment Properties, £4.0 million of Assets Held for Sale, and £22.2 million of Surplus Assets.

The objective of this audit was to review systems and procedures in place across the whole Council estate for ensuring that the Council has surety over the Land and Buildings it owns, including title. In general, this was found to be the case. Areas identified for improvement included reconciliation of systems used to record land and buildings and access to title deeds.

1. INTRODUCTION

- 1.1 The Council holds a wide portfolio of Land and Property that supports a range of services. Amongst other functions, the Land and Property Assets Service are responsible for the valuation, acquisition and disposal of the Council's Land and Property.
- 1.2 As at 31 March 2016, Operational Land and Buildings including Council Dwellings had a net book value of £1.838 billion. The Council also held £85.9 million of Investment Properties, £4.0 million of Assets Held for Sale, and £22.2 million of Surplus Assets.
- 1.3 The objective of this audit was to review systems and procedures in place across the whole Council estate for ensuring that the Council has surety over the Land and Buildings it owns, including title.
- 1.4 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with John Quinn, Head of Land and Property Assets, Fraser Bell, Head of Legal and Democratic Services and Sandra Buthlay, Senior Accountant.

2. FINDINGS AND RECOMMENDATIONS

2.1 Written Procedures

- 2.1.1 Comprehensive written procedures which are easily accessible by all members of staff can reduce the risk of errors and inconsistency. They are beneficial for the training of current and new employees and provide management with assurance of correct and consistent practices being followed, especially in the event of an experienced employee being absent or leaving.
- 2.1.2 There are written procedures in place covering the management of land and buildings. These include procedures covering Surplus Property; Property Disposal; Property Acquisition; and Condition Surveys. Procedures were reviewed and found to be comprehensive and up to date.

2.2 Property Budgets

- 2.2.1 The Non-Housing Capital Programme for 2016/17 of £159.2 million was approved by Council on 25 February 2016. The CH&I Rolling Programmes budget of £22.1 million was included as part of this budget, with £9.186 million specifically allocated to improving the condition and suitability of non-housing operational buildings.
- 2.2.2 The Asset Team has responsibility for maintaining the condition of the Council's operational buildings. Condition surveys are carried out on a 5-year rolling programme, with suitability surveys being carried out on a 3-year rolling programme. These surveys feed into the Conditional and Suitability Capital Works Programme.
- 2.2.3 As at 1 December 2016, the rolling programmes were forecast to marginally exceed the revised budget of £22.4 million by £61,000. Reasons were provided to Committee for variances.
- 2.2.4 A non-Housing revenue budget for 2016/17 of £4.183 million was also approved by Council on 25 February 2016. This covers planned maintenance (£720,000), cyclical maintenance (£850,000), school security works (£280,000) and unplanned maintenance (£2,333,000).
- 2.2.5 The Housing Capital Programme of £43.5 million was approved by Council on 16 December 2015 for 2016/17. This Programme is planned to ensure that the Council's housing stock of 22,145 properties meets health and safety regulations, as well as the Scottish Housing Quality and Energy Efficiency for Social Housing Standards. The budget is subject to monitoring by the Communities, Housing and Infrastructure (CH&I) Committee. At CH&I Committee on 1 November 2016, the forecast outturn for the Housing Capital Programme was equal to budget.
- 2.2.6 The Housing Revenue Account (HRA) Repairs and Maintenance budget of £24.7 million for 2016/17 was also approved by Council on 16 December 2015. This is used for Planned and Cyclical Maintenance such as scheduled boiler maintenance, asbestos removal and legionella testing, and Day to Day Response Maintenance including replacing broken glazing and fire damage repairs. The HRA Repairs and Maintenance budget was reported to be within budget by £713,000 for 2016/17 to Communities, Housing and Infrastructure Committee on 1 November 2016. The reasons were provided to Committee.

2.3 Acquisitions

- 2.3.1 The Estates Team within the Land and Property Assets Service, manage acquisitions. The acquisition process is governed by the Estates Manual, which details each step in the

process, and the responsible officer concerned, including confirmation of funding with the acquiring Service, negotiation with the vendor, approval to acquire, and conclusion of the bargain. Legal & Democratic Services provide legal support for concluding any bargain and complete missives. Finance will be advised of the conclusion of a purchase for treasury management purposes and to ensure the Fixed Asset Register is updated.

2.3.2 Acquisitions up to the value of £250,000 can be approved by the Head of Land & Property Assets. Any acquisition exceeding £250,000 must be approved by Finance, Policy & Resources Committee. Following acquisition of an asset, it is the responsibility of the title holder to register that title with the Registers of Scotland. It is important that title is correct, and any plans delineate the boundaries of the asset, to avoid the Registers of Scotland rejecting the application for registration.

2.3.3 A sample of 4 acquisitions was reviewed to ensure that the CH&I Asset Register (Uniform System) had been updated, and that title deeds were on file. A Uniform system report of all assets currently held was provided by the Service confirming all acquisitions selected are present in the system. Finance were advised of the acquisitions by the Estates Team in order to update the Fixed Asset Register (Logotech). Asset transactions are updated in Logotech at the financial year end, therefore 2016/17 transactions are absent from the system, although all 2015/16 transactions reviewed have been updated. The title deeds were located for the acquisitions in the deed store.

2.4 Leased Assets

2.4.1 International Accounting Standard (IAS) 17 prescribes the accounting policies and disclosures applicable to leases. Under IAS 17 leases are required to be classified as either finance leases (which transfer substantially all the risks and rewards of ownership, and give rise to asset and liability recognition by the lessee), or operating leases (which result in expense recognition by the lessee, with the asset remaining recognised by the lessor). As a consequence, where the risks and rewards of ownership are deemed to lie with the Council, leased assets will be recognised in the Council's Fixed Asset Register and balance sheet.

2.4.2 IAS 17 will be superseded by International Financial Reporting Standard (IFRS) 16 from 1 January 2019. IFRS 16 requires lessees to recognise assets and liabilities for all leases unless the lease term is less than 12 months or of low value, in which case the lease charge can be recognised as an expense. This will mean a large number of former operating leases under IAS 17 will have to be accounted for as finance leases under IFRS 16. Finance review the classification of leases annually and has confirmed they plan to review operating leases as part of the Annual Accounts work for 2016/17 in preparation for IFRS 16 being implemented.

2.5 Disposals

2.5.1 Disposal of land and building assets is managed by Estates, and involves consultation with all Council Services and, where appropriate, the Council's Public Sector Partners, such as NHS Grampian and Police Scotland. When a building becomes surplus to the requirements of a Service, the property should be declared surplus. Estates will assume responsibility for the building when it has been vacated by the holding Service, and establish if it is appropriate to maintain supplies of power and water to the building. Property details will be circulated to all Council Services to ascertain if there is any interest in the property. Any such interest must be supported by a project proposal from a Head of Service. Should no interest be indicated, details of the property will be circulated to the Council's Public Sector Partners. In the event of no interest at this stage, Estates will instruct Legal & Democratic Services to carry out checks on the title, after which the property will be marketed for sale.

- 2.5.2 Officers have delegated authority to accept offers up to £250,000 above which Committee approval is required. Following conclusion of the bargain, all relevant parties within the Council will be advised to ensure asset records are updated, title is transferred to the purchaser and for treasury management purposes.
- 2.5.3 Four disposals of property in 2015/16 and 2 disposals in 2016/17 were reviewed to ensure that the Uniform CH&I Asset Register had been updated. A Uniform system report of all assets held currently was provided by the Service confirming the system has been updated for disposals recorded in the financial ledger. The 2015/16 disposals were updated in the Logotech Fixed Asset Register.
- 2.5.4 In the event of a disposal, Legal & Democratic Services will post the physical title deeds to the purchaser, or their representative, retaining a record of the title disposition. The summary title records held by the Council had been amended to account for the transfer of title for the above disposals.

2.6 Public Private Partnership (PPP)

- 2.6.1 The 3Rs Schools Project (Reorganise, Renovate, Rebuild) is a Public Private Partnership (PPP) that resulted in 2 new secondary schools, 7 new primary schools, 1 refurbished primary school and the inclusion of 2 special schools within the new developments.
- 2.6.2 Facilities Management (FM) of the schools is undertaken by external contractors, who are responsible for the maintenance of the buildings. The FM Contractors undertake annual surveys on the buildings as part of the contract and address condition issues through a programme of lifecycle maintenance works. The surveys are designed to be a non-invasive visual review, highlighting any condition defects, and include a detailed analysis of the lifecycle maintenance work scheduled for the current financial year by month and by year for the next 4 years. All of the 3R schools were surveyed in March 2016. The FM Contractor does not notify the Asset Management Service when lifecycle maintenance works highlighted in the annual surveys are completed. However, inspections are carried out by the Asset Management Service to ensure this is the case.
- 2.6.3 The FM Contractor and their delivery partner meet with the Asset Management Service on a monthly basis. Meetings cover lifecycle maintenance work; contract variations; invoicing issues and user issues. The minutes examined confirmed that meetings were well attended, covered standing items and had been signed as accurate by the FM Contracts Manager to confirm accuracy. To facilitate monitoring of lifecycle maintenance works, it would be useful for the FM Contractor to supply an updated lifecycle maintenance analysis based on the annual surveys, indicating what work has been completed and what work is outstanding.

Recommendation

Consideration should be given to requesting a monthly report of lifecycle maintenance progress from the FM Contractor, based on the annual survey.

Service Response / Action

Agreed. This is something the FM contractors will be asked to develop with the Asset Management team.

Implementation Date

September 2017

Responsible Officer

FM Contracts Manager

Grading

Important within audited area

- 2.6.4 Following the collapse of a wall at a PPP school in Edinburgh, the Director of Education and Children's Services instructed the FM contractor to provide assurance that the 3Rs

school buildings were structurally sound, and that they were not constructed in the way which led to the issues in Edinburgh. The contractor provided visual survey inspection reports that confirmed that the buildings did not evidence any visible structural defects.

2.7 Asset Registers

- 2.7.1 It is a requirement of section 94 and section 102 of the Community Empowerment (Scotland) Act 2015 that all local authorities establish and maintain a register of land owned or leased by the Council and a register of property which is held by the Council as part of the Common Good 'Common Good asset register'. The Council must make arrangements to enable members of the public to inspect these asset registers free of charge and on a website or by other electronic means.
- 2.7.2 Creation of a Common Good asset register will result in significant resourcing implications and impact for both Land and Property Assets and Legal Services. This Part of the Act is not yet in force. The Scottish Government plans to consult with local authorities and community bodies for a 12 week period following conclusion of the 2017 Local Government Elections.
- 2.7.3 The Land and Property Asset Service maintains the Uniform Asset Management System, which contains a record of all land and buildings, excluding housing stock, but including Common Good assets. The System is used to manage these assets including condition surveys, valuations, and commercial property leases.
- 2.7.4 The Housing Capital Programme is driven by data relating to the condition of the Council's housing stock, including the lifespan of fittings, held in the Codeman database. The database indicates 8,538 properties are scheduled to have capital works carried out in 2016/17.
- 2.7.5 The Council's land and buildings are valued every 5 years on a rolling basis. Prior to revaluing the particular asset category an extract of the assets concerned is obtained from the above systems and provided to the Estates Surveyors. Following completion of this exercise, valuations are communicated to Finance.
- 2.7.6 The Asset Management Service has advised that it is intended to reconcile addresses on Codeman, the Northgate housing rent system, which holds information of properties let to tenants, and the repairs system Total on an annual basis. At present, the systems are reconciled every two to three years. A recommendation is included for tracking purposes.

Recommendation

Housing stock numbers held in the above systems should be reconciled prior to providing Estates with a record of properties to be revalued.

Service Response / Action

Agreed. Work is currently underway in the Service to reconcile the systems.

Implementation Date

May 2018

Responsible Officer

Senior Service Manager –
Asset Management

Grading

Significant within audited
area

- 2.7.7 Finance use the Logotech Asset Register for the preparation of the Property, Plant and Equipment (PPE) note to the Annual Accounts, which includes Council owned land and buildings. A report from the system showing the net book value for all PPE, was reviewed and agreed to the Annual Accounts as at 31 March 2016.

- 2.7.8 The status of operational assets held on the Uniform system is communicated to Finance when there is an acquisition or disposal, and when assets are subject to a valuation. However, the CH&I and Finance asset registers are not routinely reconciled. Following discussions with CH&I and Finance, it is intended that the two systems be reconciled to ensure the asset values carried in the balance sheet are accurate. A recommendation is included for tracking purposes.

Recommendation

The Uniform and Logotech asset register asset categories should be reconciled in line with the 5 year cycle for revaluations.

Service Response / Action

Agreed. This can be added to the reconciliation work already underway.

Implementation Date

May 2018

Responsible Officer

Senior Service Manager –
Asset Management

Grading

Significant within audited
area.

Accounting Manager

- 2.7.9 To ensure that appropriate insurance cover is provided, it is important that Insurance Officers are advised of any changes to the Council estate, including to the condition of buildings, timeously. Services submit an annual return to the Senior Insurance Officer (SIO) of properties to be covered under the Council's insurance, which was on file. Written procedures require that the SIO is informed of any acquisitions or disposals.
- 2.7.10 To ensure an accurate record of the Council's land and property estate is held, it is important that those records are clear, concise and provide data that can be traced from one record to another. There are three asset registers (CH&I Uniform Asset Register for managing the Council's non-HRA assets, Codeman Housing Asset Register for maintaining the Council's HRA assets, and Logotech Finance Asset Register for providing accounting information on all assets), two operational systems (Northgate for managing the HRA, Total for asset repairs), and an insurance cover record. Each record is stand alone, and the systems do not interface with each other. In addition, the property details recorded (i.e. property name and address) are not consistent from record to record, making tracing a property between systems difficult in some instances. The lack of common asset reference details in the Council's systems increases the risk of misstatement when: preparing the Annual Accounts, arranging insurance cover, and scheduling repairs.

Recommendation

Consideration should be given to allocating assets unique references, which are used in all Council systems recording land and buildings, for reconciliation purposes.

Service Response / Action

Agreed. This will be added to the scope of work already commissioned.

Implementation Date

May 2018

Responsible Officer

Senior Service Manager –
Asset Management

Grading

Significant within audited
area.

2.8 Procurement

- 2.8.1 The licences and support for all 3 systems has been refreshed annually without requesting further quotations, with the annual cost of each being under £10,000. As per Procurement Guidance Note 4a 'due to the small value attached to these contracts and the considerable

time and effort involved in obtaining quotations, it may be sufficient under certain circumstances, to place such orders with one particular supplier without recourse to competition as long as the Delegated Procurer is satisfied that the prices received from that supplier are fair and reasonable.' However, Procurement Guidance Note 4a requires the justification for not seeking alternative quotations to be forwarded to C&PS using a C&PS quotation form and this has not been done for the above systems.

Recommendation

Services should comply with Procurement Guidance Note 4a where applicable.

Service Response / Action

Agreed.

Implementation Date

August 2017

Responsible Officer

Accounting Manager

Team Leader IT Asset
Management

Asset Management Team
Leader

Grading

Important within audited
area.

2.9 Asset Title

- 2.9.1 The Land Registration (Scotland) Act 1979 provided for the establishment of the Land Register under the management and control of the Keeper of the Registers of Scotland (the Keeper). This is a transparent, plans-based, public register of rights of land introduced to replace the recording of deeds in the General Register of Sasines (Sasines Register). The Sasines Register has limitations as it is not map based like the Land Register, requires professional interpretation and offers no guarantee of title. The Land Registration etc (Scotland) Act 2012 was brought into effect in December 2014, amending the 1979 Act, to provide a statutory framework to facilitate completion of the Land Register.
- 2.9.2 Land Registration involves the creation or transfer of a title sheet for the land concerned. To confirm that an asset, and the land upon which it is situated, is owned by the Council, each asset should be supported by a title deed granted to the Council, which should clearly delineate the boundaries of the asset, and record any conditions affecting the property. It is important that title be accurate in terms of boundaries, and that the terms of the title are understood, to facilitate reporting requirements and ensure any proposed disposal can be concluded.
- 2.9.3 Where an asset is being disposed of, or let to a third party, asset title is confirmed with Legal & Democratic Services who keep the title deeds. Assets which were held by the former Aberdeen District Council prior to the 1996 Local Government re-organisation can be located using a filing system based on a street map index, Ordnance Survey maps and summary property title registers is in place to help officers locate title. To locate title, locations are indexed and refer to a grid reference on the street map which carries a reference number to a detailed Ordnance Survey map. Assets are delineated on the Ordnance Survey map along with the reference number of the summary title record. The title deed box in which physical title is stored is recorded on the summary title record sheet. Assets which were held by the former Grampian Regional Council prior to the 1996 Local Government re-organisation are located by means of a card index system which provides a reference to the title deed box location.
- 2.9.4 It was noted that the Ordnance Survey maps used to locate title are in excess of 40 years old, and therefore do not detail new commercial or residential developments nor any new

road re-alignments or transport infrastructure. This makes locating assets and title deeds acquired after the dates of these maps difficult and time consuming.

2.9.5 Thirty operational assets, and 20 Common Good assets, were selected from the CH&I asset register to ensure the title deeds were held by Legal & Democratic Services.

2.9.6 Title to 9 of the sampled properties on the asset register could not be traced to the physical deed, or to a summary of the deed. In addition, title could not be located for 3 of the sampled Common Good assets. The title deeds for three properties could not be found because the title box reference was not recorded on the summary title (2 properties) or the title box could not be found. Where it cannot be confirmed if the Council has title to its assets, this risks reporting misstatements, future property sales failing, as well as disputes with third parties over the use of land where title is not clear.

Recommendation

Filing documentation should be updated to ensure there is a full audit trail for all title held.

Service Response / Action

Agreed. The Service has been exploring the viability, including resource implications, of updating the current Ordnance Survey Maps, and creating a digital mapping system to facilitate a more streamlined and efficient method of identifying property owned by the Council. The Service intends to complete this viability exercise by 31 December 2017.

In the short-term, private searchers can be instructed to ascertain ownership over properties/titles that we have been unable to locate. However, engaging private searchers are both costly and time consuming.

Implementation Date

December 2017

Responsible Officer

Legal Services Manager

Grading

Significant within audited area.

2.9.7 Although there is a filing system in place for title documents, there is no link to the Asset Register maintained by CH&I. To locate title documents, it is dependent on the description and/or address of the asset to be sufficiently detailed to allow for two records to be matched. The lack of any linkage makes it difficult to trace title back to the asset register. Where the audit trail of assets and title is incomplete, title may be difficult to locate.

Recommendation

The Asset Register and title documents should be cross referred using the Asset Register reference number.

Service Response / Action

Agreed. Legal Services agree in principle with the above recommendation and that a system should be put in place to link CH&I Asset Register numbers and title deeds. Legal Services will carry out an appraisal by 1 August 2017 to explore the viability for such cross-referencing to be carried out electronically.

Implementation Date

August 2017

Responsible Officer

Legal Services Manager

Grading

Significant within audited area.

2.9.8 Title documents are principally held in a locked strongroom, within a locked room to which Legal Services hold a key. However, a significant number of title deed boxes are held in an unlocked room and are accessible to all staff with access to the Town House. Should

title be lost, the Council will suffer a financial cost to obtain copy title and future sales could potentially be delayed.

Recommendation

All title documents should be held securely.

Service Response / Action

Agreed. Originally all title deeds were held in the fire proof locked strong room in the Town House. Due to flooding in 2015 the vast majority of title deeds had to be decanted into nearby rooms which are not secure. The fire proof strong room is currently being put into a fit state, including reorganisation of the method of storage to comply with health and safety requirements. Thereafter, this room along with the lockable room opposite it will provide sufficient and appropriate storage for all the title deeds.

The ideal solution would be for all deeds to be stored in a fire proof safe in Marischal College, thus being easily accessible for all legal officers. This option is being discussed with the Facilities Management service.

Implementation Date

December 2017

Responsible Officer

Legal Services Manager

Grading

Significant within audited area.

2.9.9 The current filing system for title documents is a manual record, and is more likely to be subject to breaks in the audit trail than a digitised system. Locating title documents can be a time consuming and laborious process, requiring more than one person where it would be unsafe for a lone worker to locate title held on a high shelf, for example. By digitising the title documents, it would remove any requirement to physically recover title in the event of query, and could link to asset register documents.

2.9.10 In view of the fact that the sample tested identified gaps in title deeds and the Council's records are currently manually based, it is difficult to clearly identify all title held.

Recommendation

Consideration should be given to digitising the Council's title deeds and linking these to the Council's asset register system.

Service Response / Action

Agreed. The Service agrees in principle with this recommendation and is currently exploring the viability and options available in the market relating to deed digitisation and updating the Ordnance Survey maps (see paragraph 2.9.6 above).

Implementation Date

December 2017

Responsible Officer

Legal Services Manager

Grading

Significant within audited area.

2.9.11 The Scottish Government has expressed an intention for all land in Scotland to be registered with the Registers of Scotland by 2024, with public land being registered by 2019. In a consultation exercise carried out by the Registers of Scotland in 2015, there were 187,699 map addresses in the Aberdeen Registration County of which 118,542 had title on the land register, leaving 69,157 to be registered, although this does not distinguish between private and public land.

2.9.12 Although The Land Registration etc (Scotland) Act 2012 does not specify any penalties, it facilitates registration of land through the closure of the Sasines Register for all new transfer deeds; the closure of the Sasine Register to standard securities meaning voluntary registration will be required in the Land Register before a lender is able to

register the standard security; by ending the Keeper's discretion to refuse a voluntary land registration application; and by giving the Keeper the power to undertake 'Keeper-induced registration' enabling the Keeper to register land in the absence of an application.

2.10 Common Good Assets

- 2.10.1 The Council holds a Common Good fund valued at approximately £96 million, generating an annual income of £2.9 million. Although the Common Good is not defined in statute, it is understood that it is any land granted (such as the 1319 Royal Charter) to the City, land classified as Common Good through a decision made by Council or its predecessors, or any land "used and enjoyed by the public since time immemorial." Common Good assets are held by the Council, and are intended to benefit all citizens within Aberdeen City. In terms of section 75 of the Local Government (Scotland) Act 1973 and subsequent case law / authorities, it has been established that where the land satisfies the tests above and is for all intents and purposes 'common good land' then in order for the Council to alienate / sell such land, the authority of the Court of Session, or a sheriff, as appropriate is required.
- 2.10.2 A review of title relating to 20 Common Good assets was undertaken. For the assets where title was located, it was evident that the classification of the assets is correct.

AUDITORS: D Hughes
A Johnston
N Ritchie

Appendix 1 – Grading of Recommendations

| GRADE | DEFINITION |
|--|--|
| Major at a Corporate Level | The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council. |
| Major at a Service Level | <p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p> |
| Significant within audited area | <p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p> |
| Important within audited area | Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control. |