

To Audit Committee

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Open

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WARD INTEREST: Non-Specific

CITY OF STOKE.ON.TRENT

REPORT OF DIRECTOR OF CENTRAL SERVICES

PROGRESS ON ANNUAL GOVERNANCE REPORT RECOMMENDATIONS
- ASSET MANAGEMENT

1.0 Purpose of the Report

- 1.1 To advise the Committee of the progress to date regarding the recommendations made by the Audit Commission in their Annual Governance Report relating to the Council's arrangements for the management of its asset base and to highlight any significant risks.

2.0 Strategic, Financial, Legal and Risk Implications

- 2.1 If the Council improves the management of its asset base in line with the recommendations made by the Audit Commission the implications are as follows:
- (a) Strategic – it will have a significant, positive effect on its Use of Resources score. Good asset management will enable improvements in the 3 following areas; Financial Management, Financial Standing and Value for Money. This will enhance the Council's Comprehensive Area Assessment for 2008 onwards, and is essential to achieve the minimum score of 2. We are aiming to score 3, in line with the Council's Performance Improvement Plan.
 - (b) Financial – this year's Annual Governance Report highlighted a number of weaknesses concerning asset management within the Statement of Accounts. For ongoing financial reporting and proper stewardship of its assets, financial and management controls will be improved. Fixed assets amount to circa £1bn on the Council's Balance Sheet. Again, this is essential to score the minimum 2, and we aim to score 3 in financial reporting.
 - (c) Legal – the Council's ability to meet statutory deadlines relating to the approval and publication of its Statement of Accounts will be significantly enhanced.
 - (d) Risks – the strategic, financial and legal risks are highlighted above. In terms of delivering the project the main risk is that insufficient, suitable resources will be available for the work required in what is a tight timescale. Table 1 at Section 6 highlights how the significant project risks are being managed.

3.0 Executive Summary

- 3.1 This report highlights how the Council is addressing the issues raised by the Audit Commission in their Annual Governance Report presented to Elected Members on 28th September 2007. This is the fourth progress report following on from the report presented to Members in January.

- 3.2 An Action Plan has been produced (Appendix B) to ensure appropriate officers carry out required tasks, thus enabling the Audit Commission's recommendations to be delivered. This is being monitored by the Asset Management Team (Chaired by the Interim Head of Finance and consisting of Senior Officers). Furthermore the project will provide 'added value' to the Council in that it will enable essential accounting changes as required by the Chartered Institute of Public Finance and Accountancy (CIPFA) to be met for 2007/08. It will also improve the management of the asset base, leading to better value for money for taxpayers.
- 3.3 Appendix C details the significant assets on the Council's Balance Sheet (the 'top 40') which are under close scrutiny by the Asset Management Taskforce. Furthermore the report answers queries concerning the position on RENEW assets and their treatment on the Balance Sheet.
- 3.4 The Committee should note there has been a change in the risk profile. Further resources have had to be put in place to ensure the data cleanse and migration of data to CPAIMS will be both timely and complete. The Valuations and Capital Accounting Modules should be fully tested by the beginning of March, which leaves a small time-frame until the year-end to resolve any problems that may ensue..

4.0 Recommendations

- 4.1 ***It is recommended that the Audit Committee note the progress to date on the Action Plan to ensure the Council resolves the issues highlighted by the Audit Commission and the associated risks.***

5.0 Background

- 5.1 The Audit Commission made eight recommendations concerning the Council's current arrangements for asset management. For information these are again provided at Appendix A, with a summary of progress.
- 5.2 To ensure that these issues are addressed an 'Asset Management Taskforce' has been created consisting of Senior Officers from the Council, Chaired by the Interim Head of Finance. In addition, recent proposals to restructure accountancy services within the Finance Division include the intention to strengthen the arrangements surrounding assets and management of the Council's balance sheet.

6.0 Progress to Date and Risks

- 6.1 The Taskforce has been meeting on a bi-weekly basis. It should be noted that the project itself is wider than the Audit Commission recommendations and also focuses on implementing technical accounting changes for 2007/08 as recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA). Furthermore it is looking at potential efficiency savings through more 'joined-up' working ensuring as much as possible there is more central control over the asset register.
- 6.2 An Action Plan has been set up (Appendix B refers) with regards to the Asset Management Project. This is a living document and is being rigorously monitored by the Taskforce. The second column in the action plan shows the Audit Commission recommendation which then links to the actions, progress etc.
- 6.3 The key points to note since we last reported on progress are that:
- (a) Action 1.2 – the data cleanse between the finance and property asset registers is ongoing. The task is still on course, but proposed changes to the valuation module has led to an increase in the risk status as building value data changes are required;
 - (b) Action 2.1 - the 'specification sub-group' has scoped the necessary software changes for the Valuations module. The Capital Accounting module is being worked on;

- (c) Actions 4.3 and 4.4 – the policy on RENEW assets has been formulated. Some Members of the Committee requested at the last meeting what the position was regarding properties which were for example being rented out by Housing Associations. The assets sit on the respective Associations Balance Sheets unless as part of the agreement on which funding has been made, the Council obtains ownership of the asset, in which case they would sit on the Council's Balance Sheet.
- (d) Action 4.5 – the Council will be reliant on external valuers to ensure programmed valuations are complete for the year. Valuations are now in progress.
- (e) Actions 8.1 and 8.2 – a list of the Council's 'top 40' assets (based upon value) have been approved by the Asset Management Taskforce (see Appendix C). Legal Services are attempting to identify deeds or register assets with the Land Registry by the 31st March 2008. It should be noted the list is likely to change over time as the Council's asset base alters.

The Committee should also note that the Capital Strategy and Corporate Asset Management Plan was approved at Council on 28th February 2008. This 'is to provide a clear framework for investment in, and the management of, the council's land and property'.

- 6.4 The main risks to the project are highlighted in the table below along with the proposed resolution to minimise any threats to the Project's key outcomes. Risk 8 is an additional risk derived from para 6.3 (a) and (b) above concerning the requirement that the Capital Accounting Module is properly implemented.

Table 1 : Annual Governance Report (Asset Management) – Key Risks

Risk	Action to Mitigate Against Risk	Rating	Audit Com. Recs.
1 Appropriately skilled staff must be appointed to posts. Failure to do so could result in capacity issues.	The first stage of recruitment has taken place in the restructuring of accountancy services within the Finance Division. Vacant posts, if necessary, will be advertised externally to ensure posts are filled with appropriately qualified staff. In the interim period some additional support is in place.	Medium	R1, R2
2 Due to the tight timescales and other projects e.g. JVC work, insufficient resources are available.	Additional resources now purchased to 'cleanse' the data and further IT support is in the process of being commissioned. Loss of Agency support delayed project. More resources are in place issues are being raised with Property Services concerning data queries.	Medium Low Medium	R3, R4, R5
3 Without changes to the system it will not be 'fit for purpose'	Inter-dependent on the success of the above action. Valuations module is currently being tested, capital accounting module is to be tested in early March.	Medium Low Medium	R3, R4, R5
4 Title to all land will not be registered quickly if the Land Registry does not have the necessary capacity.	At current rates (and with the creation of a specific team within the Council) it will take 15 years to register all council deeds. Discussions are ongoing with the Land Registry. The Council is being proactive and keen to progress this. Agreed with the Audit	High Medium	R6, R7

		Commission to focus on 'top 40' assets, this is being progressed.		
5	Failure by Departments to follow a 'corporate approach' to how assets are managed will not only hinder the success of the project but could impact upon the Council's stewardship and financial management of those assets.	Director of Central Services to communicate with Senior Management on issues arising from the project. Other Directors to ensure the key messages are cascaded downwards. The AMT now has more representation from 'areas of asset significance' i.e. Highways and Housing.	Medium Low	R2, R3
6	A new financial system and coding structure is being developed. Failure to provide synergy with this project could result in inefficiency and opportunities not being maximised.	A request has been made with the Project Manager for the new Financial System, for Civica to demonstrate the asset management functionality of the new system and its applicability. To consider as part of a wider review of asset management systems by the Head of Property Strategy.	Low	R3
7	Scheduled valuations may not be complete	External valuers to undertake valuations in the last quarter, this has now commenced. The valuations need to be completed as soon as possible so that the Asset Register can be updated.	Medium	R4
8	The lateness of the valuations system development gives little lead-in time for capital accounting testing.	The Financial Services re-structure should provide additional resources to mitigate against this risk.	Medium	R3, R4, R5

7.0 Conclusion

7.1 The Council is on course to ensure that the Audit Commission Recommendations in the Annual Governance Report are implemented. Critical to the success of this will be the successful management of the more significant risks as highlighted in Table 1 above. A further update on the review will be reported to the next Audit Committee (29th April 2008).

Background Papers

Capital Strategy and Corporate Asset Management Plan, Council, 28th February 2008.

Report of the Director of Central Services, Audit Committee, 29th January 2008.

Report of the Audit Commission, Annual Governance and Letter of Representation 2006/07, Audit Committee, 28th September 2007

Asset Management Taskforce, Minutes and Working Papers, Corporate Accounting office.

Annual Governance Report 2007 – Audit Commission Recommendations

Ref	Recommendation	Responsibility	Progress	Target Date
R1	Review the capacity of the corporate accountancy team	Director of Central Services/Head of Finance	Group Accountants posts are in the process of being filled. Placement letters have been despatched to the remaining finance staff. Now largely complete.	Revised accountancy structure by April 2008
R2	Ensure errors of 2006/07 are not repeated – Quality Assurance Scheme required	Ch. Accountant / Head of Property / Head of Legal Services	The final accounts timetable has been reconfigured to ensure appropriate 'checks and balances are in place'.	March 2008
R3	Implement formal processes to review the integrity of the asset management system.	Ch. Accountant / Head of Property Services	A 'data cleanse' is being undertaken as well strengthening ownership arrangements in Departments as per the Council's Asset Management Plan.	March 2008
R4	Review the arrangements for processing and maintaining the records in respect of the asset valuations	Ch. Accountant / Head of Property Services	A process review has been undertaken leading to changes in the Asset Management system.	March 2008
R5	Improve the reliability and understandability of the asset register	Ch. Accountant / Head of Property Services	Moving to full adoption of the Corporate Property and Asset Information System (CPAIMS) will improve understandability and reporting.	March 2008
R6	Individually revalue surplus assets awaiting disposal to reflect market value	Ch. Accountant / Head of Property Services	Assets to be revalued as appropriate, although generally the value an asset is sold at is the market value.	For 2007/08 closedown
R7	Register all land with the Land Registry	Head of Property / Head of Legal Services	The 'top 40' assets (and more) are now in the process of being registered even though this is not a mandatory requirement.	To be agreed
R8	Identify the assets for which replacement deeds need to be drawn up and bring these records up to date	Head of Legal Services	Similarly for the 'top 40' assets where deeds cannot be located replacements are being sought.	To be agreed

Asset Register Project

Action Plan and Monitoring Sheet

Short Term Targets

PID 'Deliverable'	Audit Comm.Rec	Action(s)	Responsible Officer	Deadline	Comments (ie progress) Strikethrough = complete
1. To Reconcile 1 April 2007 asset register with CPAIMS	R5	1.1 Asset Register in Finance to be agreed to new structure	P Linfield	October 19th	<p>Register reconciled to new structure.</p> <p>Contractor appointed. Reconciliation underway data cleanse in progress - 90% complete. Will be completed when software issues resolved, note buildings information will need inputting as a result of system reconfiguration so individual building information can be held.</p>
	R5	1.2 Reconcile assets to CPAIMS.	P Linfield / J Nash	December 21st February 2008	
2. A robust asset register that complies with the SORP (to be CPAIMS)	R5	2.1 Agree the spec with J Nash and whether it can deliver and any alternative resolution	P Linfield / J Nash / an Brand	November 30th January 2008 February 2008	<p>Some changes are required to the software eg to include an impairment field and reports need developing. Revised date of Nov 30th, CPAIMS Spec. sub-group chaired by IB to ensure software is fit for purpose. Specification completed - await work by JNs team. Specification and system development in progress.</p> <p>Walkthrough undertaken on revaluation of Wedgewood memorial college. Revised target date of Jan 30th. Testing to be carried out first week in March</p>
	R5	2.2 System amended and tested re new areas like impairment, bespoke reports eg on valuations, when they are due, assets disposed of, depreciation, other types of asset eg vehicles, plant and equipment etc	P Linfield / J Nash	December 21st ongoing to March 2008	

PID 'Deliverable'	Audit Comm.Rec	Action(s)	Responsible Officer	Deadline	Comments (ie progress) Strikethrough = complete
	R5	2.3 Accounting implications tested.	P Linfield	February 2008	Guidance due out in December 2007. Received 07-01-08, IPF Seminar raised some issues 13-02-08 feeding into specification
	R4	2.4 Arrangements are reviewed with regards to valuations including processing and maintaining records in respect of asset valuations	S Lang	December 21st January 2008 March 2008	Valuations to take place in last quarter of year with external specialist support for RENEW assets and Residential Homes..
	R5	2.5 Departments to be informed that most asset records to be held on CPAIMS - reducing any duplication. Where held elsewhere to interface/feed into CPAIMS	I Brand	January 2008 February 2008	Delayed until data cleanse complete
3. Accurate asset management reports to Depts	R3	3.1 leading on from above reports produced for Depts / Services to sign off on quarterly basis (Reporting on first 3 quarters re the first report)	I Brand	January 2008 February 2008	As above.
		3.2 Asset management champion terms of reference to be agreed	IB	9th January 2008	To be reported to Group 9 January 2008.
		3.3 Asset management champions to be determined from new structure	IB	30th January 2008	Some Champions already nominated
		3.4 Housing data and education information to interface/feed into CPAIMS	P Brenner	January 2008	Housing data to be provided for Council Houses by housing via housing systems
		3.5 Highways asset calculations worked back using annual Highways mileage of carriageway figures	MD	December 20th April 2008	Data retrieved back to 1999 so far. Data input into model for 2005, 2006, and 2007 and submitted to Peter Linfield for comment. Agreed to use methodology for 2007/08 figures.
		3.6 Establish where housing assets should sit and the implications	AM	December 20th January 2008	Agreed the main repository of info will be CPAIMS supported by Housing system

PID 'Deliverable'	Audit Comm.Rec	Action(s)	Responsible Officer	Deadline	Comments (ie progress) Strikethrough = complete
4. A revised process map to be produced to be incorporated in Property Services ISO System	R3 and R4	4.1 Process map of existing procedures and improvements to those procedures is produced, including processing and maintaining records in respect of asset valuations	S Lang	December 21st January 2008	Processes changing as part of system and procedure changes
		4.2 Ensure assets are individually revalued awaiting disposal - check to any Cmttee reports.	S Lang	March 2008	Assets generally disposed of reflect market value.
	R6	4.3 The 'Journey' with regards to RENEW assets to be understood and documented.	Pete Bates and IB	January 9th 2008	Journey completed and documented 5-2-08
		4.4 Resulting from 4.3 a Valuation Policy (on RENEW assets) to be produced to be signed up to all by all parties and agreed with the Audit Commission	IB	January 9th 2008 February 15th 2008	Presented to Group
		4.5 External Valuers to be in place and valuing by January '07	IB	January 31st 2008	Valuers now commenced work.
		4.6 Scanning of valuation certificates onto CPAIMS	IB	February 2008	Available certificates scanned in.
5. Regular (monthly) reports to Senior Management and Project Board are produced	R2	5.1 Reports to Asset Management Taskforce	All of Group	Next meeting 5th March 2008	Ongoing progress discussed
		5.2 Process and presentation to the Audit Commission	DL and JG	8th January 2008	Done
6. An outcome report produced	R2	6.1 Report produced on success of the project, including efficiencies identified	P Linfield	April 2008	
7. Ensure 2006/07 Financial Statement errors are not repeated	R2	7.1 Ensure register and statement is quality assured	R Thorley / P Linfield	April 2008	Final accounts timetable produced leaving headroom for quality assurance
8. Register all Land with	R7	8.1 Produce report and action plan	P Hackney	November	

The Council's 'Top 40 Assets'**ASSET REGISTER - Position as at 18th February 2008**

<i>Top 40</i>	
1	Regent Theatre
2	Fenton Manor Pool
3	City Museum
4	Victoria Hall
5	Hanley Market, Potteries Shopping Centre, Hanley
6	Stoke (incl Kings Hall), Glebe Street, Stoke
7	Civic Centre, Glebe Street, Stoke
8	Sandon High School
9	Dimensions Leisure Centre
10	The Willows Primary School Greatbach Avenue Penkhull
11	Hanley Library, Bethesda Street, Hanley
12	Willfield / Queensbury Community Education Centre - Willfield Site, Lauder Place North, Ubbberley
13	Belgrave Primary School Sussex Place
14	Hanley Town Hall, Albion Street, Hanley
15	Shelton Adult Training Centre, Cemetery Road, Shelton
16	Just Mugs College Road
17	Northwood Sports Centre, Keelings Road, Hanley
18	Smallthorne Primary School Regina Street
19	The Mount Support Centre, The Mount, Penkhull
20	Meigh Street / Goodson Street, Hanley
21	John St surface car park, Hanley
22	Bridgewater Pottery
23	The Tree House/Brookhouse Childrens Centre
24	Burslem Day Centre, Baddeley Street, Burslem
25	Carmountside Crematorium
26	Birch Terrace, Hanley
27	John St car park, Hanley
28	Chatterley Rd, Tunstall
29	Swann House
30	Wallace Centre
31	Westcliffe Hospital Site, Chell Land Only
32	Moorcroft Hot Lane
33	Chatterley Whitfield Office Conversion
34	Thomas Boughey/Cauldon Childrens Centre
35	Tontine Buildings (incl 8-16 Stafford Street, Hanley)
36	Westfield/Longton Childrens Centre
37	Crescent Childrens Centre
38	Burnwood Childrens Centre
39	Newstead Adult Training Centre & Special Care Unit, Waterside Drive, Blurton
40	Fenton Day Centre, City Road, Fenton

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