

22 September 2008

Mr D Smith
Acting Chief Executive
Sunderland City Council
Civic Centre
Sunderland
SR2 7DN

Dear Dave

Ford and Hylton Club – follow-up work

You may remember that our letter of 14 May 2008 set out detailed findings on the potential sale of the Council's interest in the Ford and Hylton Club site. The letter stated that we intended to undertake further audit work on property services in order to form a view as to whether the failings identified in the 1999 lease review and monitoring of lease conditions are widespread, still exist, or are specific to Ford and Hylton Club.

Scope of further work

We tested a sample of rent reviews which were shown as due in 2007/08, and considered whether:

- proposed rents were supported by appropriate documentation;
- best consideration had been obtained; and
- appropriate contract monitoring had taken place.

Summary of findings

Our overall conclusion was that standards of record keeping have improved. The case officer now prepares a formal Valuation Report for each transaction. This details how the proposed rent has been calculated and the comparable evidence used. Appended to the report is a copy of the lease, site inspection notes and a measured survey. The report is signed by the case officer and checked and counter signed by the Valuation Manager, or in his absence, a Senior Valuation Surveyor. All provisionally agreed rents are approved by the Valuation Manager to confirm that the legal duty to obtain best consideration has been achieved.

However in this context the Council defines best consideration in overall terms, including non-financial considerations, and so does not always seek to obtain the maximum rent possible. Internal Audit has suggested that a formal concessions policy would ensure a

consistent approach which supports wider Council objectives, and such a policy has now been drafted for member approval.

Rents are set with reference to comparative information ie details of other similar recent transactions for similar property in the locality, and this is retained on file. However, based on the sample we tested, this is internal data relating to other similar Council properties, and we found no evidence of external data. There is a risk that Council rents are out of line with rents in the private sector and that this is not being identified or addressed.

Council owned shops and factories are generally occupied by small businesses and rent reviews can sometimes be protracted with deadlines not adhered to. In some cases rent reviews have taken over two years. The Council is not disadvantaged financially by this as rental increases are able to be backdated to the effective date. There is the option to refer settlement to an independent expert , however this option is seldom used because of the costs involved. Officers have recognised that project management needs to be improved in respect of the management of the timescales for rent reviews.

Monitoring measures in place include an agreed protocol in place with the Treasurer's Department for the collection of rents, and premises are inspected as to their condition when tenancies are about to cease. However, officers acknowledge that improvements could be made to monitoring compliance with lease terms in respect of repairs and maintenance.

Next steps

The Council's Audit and Governance Committee has also requested that we undertake a more strategic review of asset management arrangements. The scope of this work is currently being agreed with officers and is planned for November 2008.

Yours sincerely

Lynn Hunt, Audit Manager

Cc Mr R Rayner, City Solicitor

Mr K Beardmore, City Treasurer

Mr P Barrett, Director of Development and Regeneration