

## Audit and Risk Management

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### BRIEFING NOTE

#### Opportunity to Purchase of Alexandra House

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STRICTLY CONFIDENTIAL

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## 1. Introduction

- 1.1 Internal audit (Mazars) were commissioned to investigate and report on the process by which a decision was taken not to purchase Alexandra House, Wood Green, London N22 7TY. Alexandra House is an administrative building located in Wood Green, which the Council leased from Workspace.
- 1.2 The purpose of this investigation was to examine the governance arrangements in place for considering the purchase of Alexandra House and whether Council policies and procedures were followed. As part of this investigation, internal audit examined reports and documents presented at the Corporate Property Board and the Strategic Property Board. The investigation did not consider nor give a view on whether Alexandra House should have been acquired or comment on its fair value.

## 2. Background

- 2.1 In September 2019, the Assistant Director – Capital Projects and Property (Interim) was made aware of a press article indicating Alexandra House had been sold by Workspace to the Ability Group. Separately, the Council received a planning application from the Ability Group, the new owners, to convert Alexandra House into flats. Upon looking into this, it became apparent Alexandra House had been sold to the Ability Group.
- 2.2 Prior to this investigation, management were tasked with investigating the possible breaches of the Council's rules and procedures. We have, in part, relied on the outcome of this management information to inform our own work. In addition, our approach as outlined below, has included interviews of key stakeholders.
- 2.3 Management confirmed that, in November 2018, an Agent representing an organisation called Workspace, contacted the Strategic Property Unit (SPU - lease section) to discuss the Council's lease as Workspace had received an offer for the building. Workspace asked if the Council was interested in buying Alexandra House. This enquiry was referred to, the then Assistant Director for Property & Economic Development before being shared with the Director Housing, Regeneration and Planning. Officers opened a dialogue with Workspace recognising the possibility Workspace's approach to the authority may have been a negotiation ploy to extract better financial value. In May 2019, Workspace was

informed the Council was not interested in purchasing Alexandra House. Neither the Chief Executive nor the Leader were aware of this decision. Appendix A provides a timeline around the opportunity to purchase Alexandra House.

- 2.4 The Chief Executive has asked for assurances that management in Property Services have taken appropriate action to ensure that there are effective processes and controls in place to ensure all property acquisitions are managed in accordance with robust governance processes. From our discussions with Assistant Director for Capital Projects and Property (interim), we understand the planned Property Governance Review is the mechanism to ensure appropriate controls and governance are embedded within the Council.

### **3. Methodology**

- 3.1 To enable us to provide this requested assurance we have:

- Interview the Assistant Director – Capital Projects and Property (Interim) ; and
- Obtained evidence where available including minutes of Corporate Property Board (please refer to Appendix B for terms of reference) and the Strategic Property Board (please refer to Appendix C for terms of reference).

- 3.2 During her review, the AD Capital Projects and Property (interim) received access to all the former Director of Regeneration, Planning and Housing and the former Assistant Director Environment & Neighbourhoods' emails and diaries. The Director of Transformation & Resources, Director of Finance and former Director of Housing & Regeneration, all checked their emails and passed anything relevant to the AD Capital Projects and Property. Minutes and notes of meetings with Cllr Tucker and Cllr Adje plus agendas and minutes of Strategic Property Board and Capital Board were reviewed by the AD Capital Projects and Property. Officers involved provided information to the AD Capital Projects and Property (the Programme Director and the Property Consultant were involved in detail). The former AD for Property and Economic Development has written to the AD Capital Projects and Property with his explanation of what happened at the time. We have relied on the testimony of the Assistant Director in these areas.

### **4. Key Findings and Observations**

- 4.1 From our review, we note the former Interim AD Property and Economic Development was open to the suggestion to purchase Alexandra House as:

- a) it could help deliver MTFS savings for Environment & Neighbourhoods (the budget for Alexandra House rental was part of this directorate). The Council leased Alexandra House from Workspace at an annual cost of £675,000 per annum; and
- b) it may support the accommodation strategy. We did not find any evidence of work done to consider this and found no formal consideration in any meeting of an outline or detailed business case to buy the building though there were some references as part of the accommodation strategy at the Strategic Property Board and the Corporate Property Board. It is noted the Council was developing its accommodation strategy, and at the time, the strategy was still in its infancy. Consequently, it is likely the future need for office accommodation was not fully understood, compromising the clarity of

any decision concerning Alexandra House specifically and the implication of this on other office accommodation such as River Park House more generally. It is understood any consideration of the purchase of a commercial property would be in the context of the CIPFA prudential borrowing conditions and at the time in CIPFA had raised the approach of Spelthorne Borough Council who had taken out loans to purchase commercial property. Concerns had been raised about this strategy by CIPFA and central government as it was felt that it was risking public money on commercial activities. Further guidance has now been issued by CIPFA. From our discussions with officers, one of the options that was considered to be available to the authority was the Council would continue to lease the use of Alexandra House from the new owner.

4.2 We have not been able to find any evidence of a formal assessment and business case setting out the opportunity to purchase Alexandra House prior to its sale to the Ability Group. From our enquiries, it is unclear where the opportunity to buy Alexandra House was presented and discussed with consideration of options formally. We noted the following:

- a) It appears the AD Property and Economic Development spoke to his Director of Housing, Regeneration and Planning at the time about the potential to buy. We did not find any evidence the Director (at the time) advised the Chief Executive or the Leader, though she took ownership of this issue.
- b) We have seen a one to one briefing dated 27 November 2018 which states "Major property purchase - Alex House, Next 1:1 agenda" raised with Councillor Tucker who was Cabinet member for property at the time but not at subsequent meetings. The then Director of Regeneration, Planning and Housing left the authority before any decision was made. The Director had sent on a briefing note to her successor the former Head of Regeneration and Director of Regeneration and Housing at the end of January 2019 when he became Director but he does not recall the opportunity to purchase Alexandra House and he had no involvement.
- c) the AD Property and Economic Development commissioned a review of the 2015 valuation of Alexandra House in January 2019. The review did not significantly raise the valuation, did not support a higher offer and no further analysis was done. In our view, it would have been advisable to commission a new valuation and to seek advice on whether the purchase could proceed on that basis, based on a thorough business case on the merits of acquiring the building, considering all options.
- d) The purchase of Alexandra House appears to have considered as a possibility of generating income and / or supporting the Council's wider accommodation strategy. We have seen two separate papers presented to the Strategic Property Board in December 2018. In the absence of a formal business case, these or other options do not appear to have been developed further and discussed at appropriate fora as part of a structured approach to aid decision making, which would include the Chief Executive and the Leader of the Council. Bearing in mind the significance of this purchase, the organisation was not collectively appraised of the business case (or otherwise) for evidence based and transparent decision making. The business case would have included the strategic, economic, commercial, financial and management case for considering the purchase.

## 5. Conclusions

- 5.1 The governance arrangement to manage acquisition of a significant property asset such as Alexandra House was weak. This led to an ad hoc and largely informal process being adopted and a failure to raise the matter at appropriate fora and with appropriate officers and members at the right time and in the correct way. There is also a lack of documented evidence as to who was involved and what decisions were taken by them. No evidence was available that the option had been presented within an established framework with a supporting business case nor had any decision been formally recorded in line with the approved scheme of delegation.
- 5.2 The failings noted include:
- Lack of documented governance framework leading to decisions being taken at an inappropriate level and a failure to consider all possible options;
  - No obvious forum for consideration of such matters in terms of reference;
  - Lack of formal reporting of options leading to formal decisions on progress;
  - Lack of clear delegation to determine who was the decision owner; and
  - Failure to formally record decisions and discussions.
- 5.3 It appears the conclusion not to progress the purchase of Alexandra House was taken by AD Property and Economic Development though the audit trail around this position is weak. It is unclear what the governance framework for this position was at the time and the trail of records of meetings and referrals is lacking in key areas.
- 5.4 There is no record of this purchase ever being raised at Corporate Board. We believe a formal business case could have considered other options. The Strategic Property Unit were aware of the matter and should have advised potential alternative options for the building apart from office accommodation and ensure this is fully captured.
- 5.5 The matter should ideally have been written into an options report for Director level consideration at either Capital Board (please refer to Appendix B for terms of reference), Corporate Board or a relevant Priority Board.
- 5.6 From our review, we understand there was a verbal instruction issued to an officer within the Strategic Property Unit by the AD Property and Economic Development to inform Workspace the Council would not be putting in an offer. This was in May 2019.
- 5.7 We are of the opinion changes in key staff during the process have led to a lack clarity on decision making and responsibility.
- 5.8 We are aware officers have improved arrangements for dealing with property acquisition including:
- Acquisitions and disposals policy agreed by Cabinet as part of the Asset Management Plan February 2020 with an update scheduled for February 2021 including transparency about principles and tests applied to any acquisition proposal;
  - Review of Governance has taken place with principles of a corporate property approach agreed at Statutory Functions Board;
  - Changes to the senior reporting arrangements which cover acquisitions (Capital Board) to be considered by Corporate Board 28/1/2021;

- Improved formalised communications with Cabinet Lead Member and Leader about property matters through Property 1-1 and Strategic Property Board, including possible acquisitions including those which are not recommended, with appropriate officer clearance in place and minuted;
- Development tracker held in SPU as a central register of all possible or agreed acquisitions in one place; and
- Officer procedures for acquisitions and disposals proposals have been reviewed and improved.

Internal Audit will review the arrangements as part of its internal audit plan for 2021/22.

[REDACTED]

Mazars - Senior Internal Audit Manager

January 2021

## **Appendix A**

### **Timeline as per AD Capital Projects and Property**

We discussed the events with the AD Property and Major Projects and obtained the following information for the acquisition of Alexandra House. We have added to this timeline in November and December 2018 (as set out below).

#### *Summer 2018*

The Council was informed that the previous valuation (2015) reviewed and updated figure of c£10m arrived at, based on deduction of rent paid since that time.

Discussions started, internally and then with Workspace, linking Chocolate Factory deal.

Discussions had been taking place with Workspace with Regeneration (and advised by Strategic Property Unit) in Summer 2018 around the Chocolate Factory aspiration to take forward the proposed development scheme on their site. There is no reference /link with Alexandra House at this point.

Workspace view at that stage was that they were looking at a conversion for workspace units at Alexandra House which would have been acceptable from a Regeneration or Planning perspective at the time, so whilst there were discussions about a possible land swap as an option this was not a driving force.

#### *November 2018*

The SPU (lease section) was contacted by an agent representing Workspace separately from any discussion with Regeneration to discuss the Council's lease, as Workspace had an offer to sell. The agent asked if the Council was interested in buying. This was referred to Head of Property, AD Property & Economic Development and Director Housing Regeneration and Property and work started to explore this land swap for Alexandra House. We did not find any papers setting out a business case for this review.

#### *December 2018*

Strategic Property Board - There is reference in the minutes to briefing with the Leader on Accommodation Strategy to be held that day and verbal update to go to January Strategic Property Board. There are also discussions about income generation / Capital Budget / MTFs. The minutes show that under the heading "Strategic Property Review – income generation" the AD Property and Economic Development refers to leases being paid to third parties (e.g. workspace), negotiations currently taking place to resolve. The Board received a paper on Commercial Property Portfolio – Capital Programme Proposals, which states Alexandra House Acquisition is not currently in the Capital Programme proposals.

This is part of a discussion with Workspace and would be a joint business case setting out both operational and property income generation benefits of an acquisition of the property. Current estimates are between £10m and £14m. The Board also received a paper on Commercial Property Portfolio – Income Generation, which refers to there being additional ideas now being considered include the acquisition of leased properties – including Alex House (£675,000 pa rent paid by the Council).

*There is a Cabinet Member 1-1 (Cllr Tucker) and a note of Alexandra House possible acquisition. There is no detail in the minutes and nothing further noted in subsequent meetings.*

#### *January 2019*

There is a meeting with Workspace on 15<sup>th</sup> January 2019. Workspace indicated they would sell Alexandra House to the Council for £14.5m, the Council has a 2015 valuation of £10m. Work followed to review valuations and do an appraisal to see if a figure close to that suggested by Workspace could be achieved. We did not find any papers of this would be reviewed.

At the Strategic Property Board, the Accommodation Strategy is on the agenda. The meeting focuses on Council owned sites in Wood Green and heading towards decision on location of new council offices.

#### *February 2019*

There are two 1-1 meetings with Cllr Tucker to discuss a draft Cabinet report, these make no reference to possible opportunity to acquire Alexandra House.

Officer email references the need to resolve matters with Workspace to enable acquisition of Alexandra House to make the required revenue savings and reference to needing to brief Cllrs Tucker and Adje in context of Workspace / Wood Green. There is reference to needing a decision. We did not find any evidence this was taken forward.

Further officer email ref: linked to MTFS - Alexandra House possible acquisition helping with the MTFS shortfall and referencing positive work with Workspace about a possible acquisition and this could be presented to members as part of the accommodation strategy.

Officers noted based on valuation obtained, it was very difficult to justify a cost of £14.5m for Alexandra House. Best figure at 0% affordable housing at that point was c£10.75m.

The Accommodation Strategy was on the agenda for Strategic Property Board. There is no reference in minute to acquisition of Alexandra House. The paper was the draft of the Cabinet paper on the accommodation strategy going to Cabinet.

#### *March 2019*

There is further discussion with Workspace to consider options to buy Alexandra House.

There are two property 1-1 Meetings with Cllr Tucker, there is no reference to the purchase of Alexandra House.

#### *April 2019*

There are property 1-1 meetings with Cllr Tucker, there is no reference to purchase of Alexandra House in agenda and April focus was Industrial estates visits.

There is a Wood Green Sites officer meeting to prepare for Cabinet report. The focus is on Council owned sites.

At the Corporate Property Board, there is reference to Alexandra House in the context of the MTFS, but not to opportunity to acquire Alexandra House.

#### *May 2019*

At the first of the two Strategic Property Unit, email reference to acquisition as a live option alongside extension of lease or lease termination.

Later that month, an officer in the Strategic Property Unit team advised decision taken not to pursue a business case to acquire Alexandra House and to advise Workspace accordingly. The officer confirmed he was asked to notify Workspace by the AD Property and Economic Development.

At the later date in the month, the Corporate Property Board convenes. There is a presentation prepared with reference to Alexandra House. The minutes state "The council is not buying Alexandra House because Workspace would use the space more effectively....". The presentation was in relation to accommodation moves in order to empty Alexandra House at lease end but includes a slide on the options to acquire, terminate or extend the lease, though at this stage, a decision had been made already not to purchase Alexandra House. Specifically, the presentation from the AD Property and Economic Development highlights the three options considered; acquisition, lease extension and lease termination. For lease acquisition, the presentation states: the council could acquire the freehold of the building. However, there is no business case to do so at this stage. A figure of £13m+ has been quoted for the freehold interest by Workspace.

#### *September 2019*

Press coverage about sale for £15.5m to The Ability Group.

## **Appendix B**

### **Capital Board and Corporate Property Board Terms of Reference**

#### **1. Introduction**

- 1.1. This document sets out our ambition relating to the structure and governance for the function and operation of a Capital Strategy and Delivery Commissioning Board, known from now on as a Capital Board (CB) – and a Corporate Property Board (CPB).

#### **2. The Capital commissioning approach**

- 2.1. Commissioning with any capital element including feasibility studies funded from revenue budgets must be approved by the Capital Board in order to achieve a strategic overview of capital delivery, related financial forecasting/spend and efficient use of the asset base.

#### **A Draft Capital Board Terms of Reference**

The function of the Capital Board is, at officer advisory level, to:

1. Provide the strategic direction in relation to the 30-year General Fund and HRA Capital Strategy to ensure they reflect the Borough Plan.
2. Consider the 10 year Capital Strategy and refreshes and make recommendations to Corporate Board and Cabinet about programme changes /major delivery issues.
3. Maintain a strategic overview of Capital Strategy performance in terms of constraints, risks, benefits realisation, VFM, affordability and benchmarking.
4. Maintain a strategic overview of capital resources to ensure optimal use to support the capital strategy including overview of the capital receipts programme; major disposals and acquisitions; capital grants and other contributions such as CIL, s106, s278.
5. Horizon scan to ensure that future capital investment programmes are planned and resourced accordingly.
6. Consider and recommend the Asset Management Strategy, which will incorporate major service based initiatives which involve acquisitions, disposals, rationalisation, dispute resolution, surplus declarations, and capital investment including invest to save proposals.
7. Drive the strategy for property based saving and investment which support the MTFS, including targets and spend to save.
8. Assessment of business cases and oversight of the delivery of major property change projects.
9. Maintain oversight of the Council's approach to One Public Estate, and to agree collaborations with other public agencies around use of assets.
10. Ensure that all Priority Board proposed schemes and asset management plans are in alignment with Council objectives and the Council's Capital Strategy. To ensure that schemes are sufficiently scoped and considered at Priority Boards.
11. Maintain a high level overview programmed repairs and maintenance budgets to ensure provision is adequate to deal with condition, safety and lifecycle investment.
12. Ensure that property information, condition surveys and property data systems are fit for purpose to support strategic decision making about the councils property assets.
13. Consider priority board business cases and feasibility study proposals for major capital investment in a single project or at programme level, as necessary.

14. Receive gateway reviews of major projects to approve before proceeding to the next stage.
15. Act as the escalation point for significant variations /overspends or of risks around budget overspends or delivery delays.

## **B Draft Corporate Property Board Terms of Reference**

The function of the Corporate Property Board is, at officer advisory level, to:

1. Consider priority board monitoring reports on the delivery of capital projects and programmes;
2. Consider reports on the Council's asset base to include potential major disposals;
3. Maintain oversight of the Community Asset Transfer policy;
4. Guide decision making in relation to the detailed annual Repairs & Maintenance programme and condition/feasibility survey programme;
5. Develop asset management guides for services;
6. Manage the property data systems and condition survey programme;
7. Performance manage the Facilities Management and Repairs & Maintenance programme
8. Take decisions (or recommendations) on change of use of minor council assets, re-use of assets, acquisition and disposal of minor land and property assets;
9. Take decisions (or recommendations on) Community Asset Transfer proposals;
10. Take decisions (or recommendations on) proposed registration of Assets of Community Value
11. Take decisions (or recommendations) about commercial and leased-in property;
12. Take decisions (or recommendations) in relation to the commercial portfolio and leased-in property;
13. Manage performance data monitoring;
14. Consider monitoring reports from Assistant Director Planning and Assistant Director Capital Finance on:
  - CIL;
  - S106;
  - S278;
  - Capital grants; and
  - Capital receipts

## **C Membership**

The proposed core membership of the Capital Board reflects the current arrangement, which works well, but changes it to make quorum more achievable by adding in one additional member, with quorum being 4/7 rather than 4/6 as at present, and having a minimum number of directors at 2 in the quorum. For discussion is the additional member:

#### CAPITAL BOARD

Name	Title	Role
	Director of Housing, Regeneration and Planning	Chair
	Director of Customers, Transformation and Resources	Member
	Director of Environment & Neighbourhoods	Member
	Chief Finance Officer	Member
	Assistant Director, Commissioning	Member
	Assistant Director, Planning	Member
	Assistant Director, Schools and Learning	Member
	Interim Head – Capital and Projects	
	Strategic Lead – Capital Delivery	
	Head of Organisational Resilience	
	Head of Major Project Delivery	

It was agreed that some overlapping membership would be important, especially initially, but more discussion would be useful to confirm the membership of the Corporate Property Board. Two directors have been included, Director of Customers, Transformation and Resources as Chair, plus the Director of Environment & Neighbourhoods given the operational nature proposed for this board. Only one director needs to be present to form the quorum though, with a proposed 3/5 quorum. On this basis, for discussion, membership could be:

#### CORPORATE PROPERTY BOARD

Name	Title	Role
	Director of Customers, Transformation and Resources	Chair
	Director of Environment & Neighbourhoods	Member
	Assistant Director, Property	Member
	Assistant Director, Customer Services	Member
	Assistant Director, Commissioning	Member
	Strategic Lead Capital Delivery	Member
	Head of Strategic Property	
	Head of Organisational Resilience	
	Interim Head – Capital and Projects	
	Head of Construction Related Project Delivery	

## **Appendix C - Strategic Property Board Terms of Reference**

### **Membership:**

Leader of the Council

Cabinet Member for Corporate Resources & Insourcing

Cabinet Member for Finance

Cabinet Member for Strategic Regeneration

Cabinet Member for Communities, Safety & Engagement

### **Officers:**

Chief Executive

Director Housing, Regeneration & Planning

Deputy Chief Executive, Customers & Transformation

Chief Finance Officer

Assistant Director, Economic Development & Growth (Strategic Property)

Assistant Director, Corporate Resilience (Corporate Landlord)

Assistant Director, Commissioning, Adults & Health

### **Remit:**

1. CAB Strategic Property Board is an informal group of Cabinet Members, being a sub-group of CAB and as such shall report to CAB on key recommendations and discussions.
2. The group shall review strategic issues relevant to the Council's ownership, acquisition/ leasing, management, allocation and disposal of land and property assets, asset management and budget allocations to property, whether held corporately or within policy portfolios and departmental functions. The group shall consider how land and property assets should best be used to serve the Borough Plan and policy objectives agreed by the Council.
3. Other issues, such as finance and policy commitments, which may have a direct impact on the ownership, acquisition/leasing, management, allocation and disposal, deployment and disposal of major land and property assets will also from time-to-time be discussed at the group.
4. The group shall consider issues it believes are relevant to strategic discussions of sub-groups of CAB such as those affecting the annual budget setting process.

5. The group shall therefore consider strategic issues, such as the Council's accommodation strategy/operational requirement for property, commercial property, operational asset management, the acquisitions and disposals programme, community buildings, the taking of leases and other interests in third party property etc.

#### Governance

6. The group will normally meet quarterly - or at any time in between quarterly meetings should it be necessary - at dates and times agreed by the Leader in consultation with the Cabinet Member for Corporate Resources & Insourcing.

7. The agendas and papers will be drawn up by officers in consultation with the Leader in consultation with the Cabinet Member for Resources and Insourcing. Key actions recommended by the meeting will be taken for use in reporting to CAB.

8. The group is an informal strategic group of CAB and shall not report to Cabinet or any Council Committee. As a strategic group, the group shall not take votes or make decisions on matters of policy or the deployment of resources.

9. Any major policy recommendations or proposed resource allocations relating to land and property discussed at the Strategic Property Board will be referred onward to CAB and subsequently at Cabinet or formally constituted committees of the Council with the relevant authorities to made decisions.

