



London Borough of Hammersmith & Fulham

Audit and Pensions Committee Minutes

Wednesday 22 September 2010

PRESENT

Committee members: Councillors Michael Adam (Chairman), Marcus Ginn, Robert Iggulden, Michael Cartwright (Vice-Chairman) and PJ Murphy

Co-opted member: Eugenie White

Officers:

Jane West, Director Of Finance and Corporate Services
Hitesh Jolapara, Deputy Director of Finance
Pat Gough, Assistant Director- Finance
Geoff Drake, Chief Internal Auditor
Jill Lecznar, Corporate Accountancy Manager
Michael Sloniowski, Principal Consultant- Risk Management
Bob Pearce, Group Accountant- Technical
Owen Rees, Committee Coordinator

Simon Jones and Helen Smith, P-Solve

Jon Hayes, District Auditor, and Julian McGowan, Audit Manager, Audit Commission

19. MINUTES OF THE MEETING OF THE 29TH JUNE 2010

Councillor Iggulden raised concerns that actions agreed at the last Committee meeting had not been completed, and that others had not been completed promptly; particularly with regard to the requested Corporate Anti-Fraud Service training session. He also requested that minutes were circulated to members within two weeks of the meeting taking place.

RESOLVED THAT

- (i) The minutes of the meeting held on the 29th June 2010 be agreed as true and accurate, and;
- (ii) The outstanding actions be noted.

20. APOLOGIES FOR ABSENCE

There were apologies from Councillor Botterill, who was on other Council business.

21. DECLARATIONS OF INTEREST

Councillors Cartwright and Murphy declared a personal interest in all items, as members of the Pension Fund.

22. PENSION VALUE AND INVESTMENT PERFORMANCE

Helen Smith, P-Solve, introduced the report, which set out the performance of the Council's pension fund in the quarter ending 30 June 2010. The period described, and the period subsequent to it, had been a period of volatility, with the value of the fund first falling and then rising to its previous level. The performance and prospects for different mandates within the fund were analysed, including the harsher market conditions faced by the Goldman Sachs Matching Fund mandate, and the respective performances of Barings and Ruffer within the Dynamic Asset Allocation Mandate.

Councillor Murphy asked what level of confidence P-Solve had in Goldman Sachs continuing to meet their targets. Helen Smith said that their mandate had been in an area in which it had been relatively easy to outperform their target, but as conditions in the bond market changed, this would become more challenging.

The Chairman and Councillor Murphy asked questions about the performance of Barings, with regard to their performance relative to that of Ruffer and with regard to their exposure to emerging market equities respectively. Helen Smith said that Ruffer's portfolio contained more risk than that of Barings and that, with this in mind, P-Solve were happy with the allocation balance between the two managers, and that it was too early to consider changing it. With regard to Barings' exposure to equities, this was to equities as a whole, rather than emerging market equities in particular.

Councillor Cartwright asked, in the light of recent articles in The Evening Standard, about the tobacco industry stock held by the fund, and whether any policy was in place on ethical holdings. The amount held was relatively low, but there was no specific ethical policy on what stocks the fund held, though it would be one of the factors a fund manager would consider.

RESOLVED

THAT

The report be noted

23. REBALANCING THE INVESTMENT STRATEGY

Simon Jones, P-Solve, introduced the report, which set out proposals regarding a rebalancing strategy for the Council's pension fund. P-Solve had been requested to assess ways in which the Council could rebalance between the resources allocated between the fund's different elements, when one element exceeded the percentage threshold set.

There were different ways in which this rebalancing could be undertaken. If done on a daily basis, research showed that it would produce a benefit, though not one that was believed to outweigh the costs of implementation. As the period between rebalancings was extended, the value added by the rebalancing fell.

Eugenie White said that she and Councillor Iggulden had understood that the practice was in place at a large institution, and was a success there. She asked why this might be the case.

Simon Jones said that large institutions were likely to have large in-house teams meaning that costs were easier to absorb, derived from the control of wider group of assets.

Councillor Iggulden said that he understood the practice to be transferring gains over target made in equities to the Matching Fund, to be done on an annual basis, if there was an outperformance of 5% over target, for instance.

Pat Gough, Assistant Director of Finance, and Bob Pearce, Group Accountant-Technical, said that the different elements of the fund were rarely more than a couple of percentage points outside their target level. This was the subject of periodic review by officers, though the position of the fund could be assessed on a daily basis, barring certain elements.

RESOLVED

THAT

The report be noted, and no further action be taken.

24. MATCHING FUND STRATEGY

Simon Jones, P-Solve, introduced a report on strategy within the Matching Fund. He said that the Council had sought to invest in a leveraged LDI vehicle to hedge liability risk. However, due to excessive costs of implementation, an alternative strategy had been pursued, investing in very long –dated indexed gilts. P-Solve had now reviewed whether it was an appropriate time to implement the original proposal. However, while costs had fallen somewhat, a change remained impractical; particularly as no product was available through Legal and General, the current holder of the mandate, that hedged against inflation risk alone. P-Solve did not recommend a change to the current arrangements.

Councillor Murphy asked whether the Council could purchase the product that it wanted from another provider. Simon Jones said that any such change to the mandate would require a procurement exercise, which would incur cost and take some time. It would also be difficult for the Council to begin a procurement exercise and to abort it at a later date, without damaging its own credibility.

Given the limits placed on the Council by European procurement law, the Committee agreed that the best course was to ask P-Solve to continue discussions with Legal and General on the availability of an investment that met the Council's requirements. P-Solve would then report to the Committee's December meeting on

the outcome of these discussions, and whether a change of mandate should be pursued.

RESOLVED THAT

P-Solve be requested to submit an update on the issue to the Committee's next meeting.

25. CIPFA NEW KNOWLEDGE AND SKILLS FRAMEWORK

Pat Gough, Assistant Director Of Finance, introduced the report, which set out new CIPFA guidance on the skills required of officers and members involved in decision making on Pension Funds. The guidance recommends that members and officers complete a skills assessment to identify training needs, and enable planning of training.

The Committee agreed to individually complete the questionnaire, asking that officers issue it to them with only those elements necessary.

RESOLVED THAT

- (i) The report be noted, and;
- (ii) The Committee agree to undertake the skills assessment.

26. TREASURY MANAGEMENT OUTTURN REPORT

Pat Gough, Assistant Director of Finance, introduced the report, which set out the annual outturn for the 2009/10 financial year, setting out levels of debt and investment at the end of that year; the report would be received by the next meeting of Council. She drew the Committee's attention to key aspects of the report, including the timing of borrowing from the Public Works Loan Board, and the breakdown of the Council's debt maturity, as set out in table 6.2 of the report.

In response to a question from Councillor Ginn, she said that the Council borrowed in the long-term to meet the short-term costs of its Capital Programme. The Council sought to time its borrowing so as to best achieve the low rates of interest.

RESOLVED THAT

The report be noted.

27. ANNUAL GOVERNANCE REPORTS 2009/10 – STATEMENT OF ACCOUNTS & PENSION FUND

Jon Hayes, District Auditor, described the key findings of the audits of the Council's main accounts and of its Pension Fund accounts. He said that the audit of the main accounts had gone very well, and that he expected to be able to issue a clean

opinion on the accounts shortly. He said that there had been more problems with the Pension Fund accounts. He understood that this arose from issues with the London Pension Fund Authority, who, under contract, undertook pensions administration on the Council's behalf. This manifested itself in the need to reconcile the number of fund members, as the Council and the LPFA's figures differed, for instance.

Councillor Cartwright noted that there had been recurring issues with the Pension Fund accounts. Jon Hayes said that the audit of the general fund accounts had gone very well, and the papers provided by the LPFA might well be the cause of the problem. He said that while the problems were not critical, they were a hindrance to the Council's stated aim of an early opinion on the Pension Fund accounts.

Councillor Murphy asked what measures were in place to improve performance the following year. Jane West, Director of Finance and Corporate Services, said that the effects of the retender and actuarial valuation combined with a reduction in staff had meant that resources within the pensions administration team had been stretched. New process and additional staff resource had been agreed to improve the situation.

Councillor Iggulden raised concerns about the treatment of PFI projects in the accounts, feeling that this did not show the full extent of the liabilities, though he noted that the treatment was in line with recommended practice.

Councillor Murphy asked about the size of the earmarked reserves, and whether there was scope for reserves to be smaller. Officers clarified that the reserves were not unusually larger than those held by other, comparable boroughs or an organisation with similar turnover. Further, elements of the reserves were earmarked to be spent, having been set aside at the initiation of given projects. Officers agreed to provide a breakdown of the Other Funds element of the Reserves to members.

Eugenie White asked why a different value for the Council's Pension Fund was given in the accounts and in the performance reporting received. Jill Lecznar, Corporate Accountancy Manager, said that this was owing to the different treatment applied under FRS17, the accounting rules that the Council was obliged to apply.

Councillor Ginn asked how officers had arrived at the figures for debt write-off. Jill Lecznar said that the Council applied an analysis of debt age, and wrote off that which it was unlikely to recover. The figure shown was comprised largely of parking debt, for which the Council had not credited itself with income.

RESOLVED

THAT

- (i) The content of the Auditor's Annual Governance Reports (that the accounts will receive an unqualified opinion, are free from material error and that the Council has an adequate internal control environment be noted, and;
- (ii) The Council's response to those reports be noted, and;

- (iii) The management representation letter be noted, and;
- (iv) The Statement of Accounts be approved.

28. AUDIT COMMISSION RECOMMENDATIONS UPDATE

Geoff Drake, Chief Internal Auditor, introduced a report setting out progress on the implementation of Audit Commission recommendations. Only 2 remained outstanding, and he agreed that they would either be concluded or have a date for conclusion by the time of the next report.

RESOLVED THAT

The report be noted.

29. ANNUAL GOVERNANCE STATEMENT 2010 ACTION PLAN

Geoff Drake, Chief Internal Auditor, introduced the report, which updated on progress against the 2010 Annual Governance Statement Action Plan. It was noted that Hitesh Jolapara should be listed as the Lead Officer for Budget Estimation.

RESOLVED

THAT

The report be noted

30. CORPORATE ANTI-FRAUD SERVICE Q1 PROGRESS REPORT

Geoff Drake, Chief Internal Auditor, introduced the report, which set out the performance of the Corporate Anti-Fraud Service (CAFS) in the first quarter of 2010-11. The report outlined the services' strategy for the coming year, as well as providing an update on work completed and income received. The successful outcomes included 103 sanctions against a target of 43, and 11 recovered properties. The value to the Council of the work undertaken was estimated at £3.9million.

In response to a question from Councillor Murphy, Geoff Drake said that formulas devised by the Audit Commission was used to measure the value of work. This had advantages in ensuring that totals were comparable with other Councils, and in its ease of use. The formula itself might not always reflect the full value of an outcome, however: a recovered property, for instance, was adjudged to be worth £75,000.

Councillor Cartwright noted that fewer staff were working on internal fraud investigations. Geoff Drake said that there had been a backlog of internal investigatory work to undertake, much of it disciplinary: when this was cleared, the service was able to reallocate its resources. The Service was also devising guidelines for managers in that area.

Eugenie White asked how the Service chose which cases to pursue, and what happened to cases that not subject to a full investigation. Geoff Drake said that the service assessed a number of factors, including the alleged crime, the workload of the team and the quality of evidence; cases that did not receive a full investigation were kept on file to allow them to be reinvestigated at a later date if more evidence was presented or resource available.

RESOLVED

THAT

The report be noted.

31. COMBINED RISK MANAGEMENT HIGHLIGHT REPORT- OPEN ASPECTS

Michael Sloniowski, Principal Consultant- Risk Management, introduced the report. He said that the report's format had changed from those previously received by the Committee, as part of ensuring that the Council meets the British Standard Code of Practice for Risk Management. Further to this, a gap analysis of the Council's risk management in line with the British Standard was under way.

He also outlined the work ongoing with regard to the Council's operational risk areas including Insurance , health & safety and business continuity This included work on risk control with the aim of reducing costs, and work on what were the appropriate levels of risk for the Council to retain.

In response to questions from members, he said that the Council's insurance excess was £100,000 and that liability and other claims were typically around £500,000 to £600,000 per annum. Work was ongoing about what the best arrangements might be to gather all relevant information held in the different systems within the Council and improve data for scrutiny.

Councillor Iggulden asked what progress had been made on the mutual insurance scheme that Hammersmith and Fulham had been part of with other Councils. Jane West, Director Of Finance and Corporate Services, said that the project had been the subject of successful legal challenge by one of the companies that had tendered. Councils had since been granted the powers necessary to introduce the arrangement envisaged, but reconstituting them would take some time.

With regard to the risks associated with the Building Schools For The Future programme, Michael Sloniowski said that the risk was assessed as red owing to the end of Government funding for the programme in its previous form.

RESOLVED

THAT

The report be noted.

32. INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 APRIL TO 30 JUNE 2010

Geoff Drake, Chief Internal Auditor, introduced the report, which updated on the activities of the Internal Audit service in the quarter to 30 June 2010. He said that

since the report was written, the situation reported had improved. 26 reports had been produced, 2 of which had limited assurance and were incorporate in the report. All recommendations relating to these 2 reports have been reported by management as implemented. 47 outstanding recommendations had been reduced to 14, none of which were more than six months past their target date for implementation.

Councillor Cartwright asked about the report to the Governing Body of Brackenbury Primary School, and how the arrangements were funded. Geoff Drake said that the audit was funded from the Schools budget, but that there was no extra contribution if an audit proved complex. In response to a query from Councillor Iggulden regarding the role of Governors, Jane West clarified that, as Director of Finance and Corporate Services, she was obliged to sign off that schools were in compliance with the Financial Management In Schools guidance, with the Council's audit necessary in that regard.

Councillor Murphy asked what steps were taken when an audit found that there was sub-par performance on the part of Council officers. Geoff Drake said that Internal Audit did not make recommendations with regard to individual officers, with action of that nature left to line managers, but did monitor the implementation of recommendations made on limited assurance reports. Jane West added that these issues were picked up with Directors through the annual assurance statements.

RESOLVED THAT

The report be noted.

33. EXCLUSION OF THE PUBLIC AND PRESS

RESOLVED THAT

The press and public be excluded from the meeting during the consideration of the following items of business, on the grounds that they contain the likely disclosure of exempt information, as defined in paragraph 3 of schedule 12A under Section 100A (4) of the Local Government Act 1972, and that the public interest in maintaining that exemption currently outweighs the public interest in disclosing the information.

34. EMERGING MARKETS (E)

RESOLVED

THAT

The mandate held by MFS be moved from the Global Equity to the Global Growth product.

35. COMBINED RISK MANAGEMENT HIGHLIGHT REPORT- EXEMPT ASPECTS (E)

RESOLVED THAT

That the report be noted.

Meeting started: 7.00 pm
Meeting ended: 9.37 pm

Chairman

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