



London Borough of Hammersmith & Fulham

Audit and Pensions Committee Minutes

Thursday 9 December 2010

PRESENT

Committee members: Councillors Michael Adam (Chairman), Nicholas Botterill, Marcus Ginn, Robert Iggulden and PJ Murphy

Other Councillors: Councillor Alex Karmel (in part)

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

36. MINUTES OF THE PREVIOUS MEETING

RESOLVED THAT

- (I) That the minutes of the meeting held on 22 September 2010 be agreed as a true and correct record, and;
- (II) That the outstanding actions be noted.

37. APOLOGIES FOR ABSENCE

There were apologies from Councillor Cartwright, who was on other council business.

38. DECLARATIONS OF INTEREST

Councillor Murphy declared a personal interest in all items as a member of the Council's pension fund.

39. 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 period to 30th September 2010. Fund growth had been strong compared to the 2nd quarter, with the value of the fund at the date of the meeting up to £577 million. She noted the rise in the liability benchmark in 2010-11, due to strong gilts prices, and the consequent impact on fund managers' ability to exceed the benchmark.

With regard to the Legal & General mandate held within the Matching Fund, Simon Jones updated the Committee on negotiations with Legal & General regarding the requested inflation and interest hedging product. The Council had first agreed to purchase a product that hedged against both inflation and interest rate rises in the first quarter of 2009, but market conditions had instead necessitated the purchase of a very long-dated gilt. Over the last three months, P-Solve had held discussions with Legal & General about the implementation of the original mandate, though as a hedge against inflation only. Legal & General had made a proposal, which P-Solve was reviewing. Legal & General were concerned that the product, which would be bespoke to the Council's requirements, would require a higher fee.

In response to a question from Councillor Ginn, Simon Jones clarified that the Council paid higher fees where the work was of higher value; a passive holding, such as the long-term gilt currently held, drew a smaller percentage fee than the proposed new investment. Pat Gough, Assistant Director of Finance, confirmed that a variance in the fee charged, within the existing mandate, would not require the mandate to be retendered.

Eugenie White asked if the principle behind the mandate was still sound. Simon Jones said that he recommended the implementation of the modified mandate, adding that the Council was not the only source of demand for a similar product.

Councillor Murphy asked whether, in view of Legal & General's failure to meet the Council's demands, it would be appropriate for the mandate to be retendered, and if not, when a decision might be reached. Simon Jones said that he felt that Legal and General would meet the Council's demand, and that a definitive answer would be given at the Committee's next meeting on the matter.

Eugenie White asked about the performance of MFS and Majedie. Bob Pearce, Group Technical Accountant, said that only Majedie received a performance fee which is assessed over rolling three-year periods, meaning that recent underperformance would require future over performance if Majedie were to continue to draw performance fees.

He also updated on the performance of the private equity investments made by the Council, which made up approximately 2% of the fund. The Council received

quarterly updates from the managers and the investments had generally performed well, given the economic circumstances since their inception. Officers agreed to circulate a more detailed update on the private equity elements of the fund to members following the meeting.

Councillor Murphy asked whether MFS' performance had been over reliant on currency effects. Helen Smith said that performance had benefited from their exposure to the dollar, and that the Council did not necessarily wish the investments made in emerging markets to be hedged against currency changes, as this formed part of the investment strategy.

Councillor Murphy then asked about the concentration of gold held by Ruffer, and whether this was considered too high. Helen Smith said that the portfolio was well-diversified, and that while gold prices may not trend upwards, they would not fall to the level of 5 years before.

RESOLVED

THAT

The report be noted

40. ANNUAL AUDIT LETTER

Jon Hayes, District Auditor, Audit Commission, introduced the external auditor's annual letter. He said that the auditor's view and message was much as it had been at the delivery of the accounts. Challenges identified for the 2010/11 financial year included the implementation of International Financial Reporting Standards and the plans for sharing services with Westminster and Kensington and Chelsea Councils, with the action plan for the latter seen as sensible.

With regard to the future of the Audit Commission itself, he said that the management would be putting forward a proposal to the Secretary of State to organise itself as a mutual; this could mean a lower limit to the liabilities faced by local authorities, and lower fees as a consequence. With regard to fee levels, he said that the Audit Commission was hopeful of meeting its commitment to lower fees.

RESOLVED THAT

The report be noted.

41. AUDIT COMMISSION RECOMMENDATIONS UPDATES & ANNUAL GOVERNANCE STATEMENT 2010 ACTION PLAN

Geoff Drake, Chief Internal Auditor, introduced the report which set out updates on previous Audit Commission recommendations and on progress against the Annual Governance Statement 2010 (AGS) Action Plan. 7 Audit Commission

recommendations were listed, 4 of which had been implemented, with 1 of those outstanding to be completed at the submission of 2010-11 accounts. With regard to the AGS Action Plan, there were four entries, with IT Business Continuity to be addressed by the introduction of new systems in February.

Councillor Ginn asked what resilience the Council currently possessed, and what additional capacity would be introduced by change in systems. Jane West, Director of Finance and Corporate Services, said that the Council had two data centres, with one located in east London, as well as the one in the Town Hall. The changes to be introduced would allow more effective mirroring between the two centres, meaning that around 50 key systems (of 150 in use) would continue to operate in the event of a failure in one data centre.

Councillor Murphy asked how, given the number of systems in operation, IT integration with the other Councils would proceed. Jane West said that that type of integration would proceed slowly, with communications the first issue under consideration, and with the process being business-led.

RESOLVED

THAT

The report be noted.

42. TREASURY MANAGEMENT MID-YEAR REVIEW

Pat Gough, Assistant Director- Finance, introduced the report which set out a mid-year review of the Council's Treasury Management. The report showed the Council's lending and borrowing activity since the outturn report. Borrowing activity had been reduced considerably, with the Council's requirement to borrow for Decent Homes spending at an end.

Councillor Murphy noted that the Council's lending was concentrated with Lloyds TSB. Pat Gough clarified that the credit ratings of the banks in which the Government held a stake were the highest available. With regard to the lending made to Thurrock Council, Pat Gough said that it had offered the best available rate at the time with the Debt Management Office the only other option.

Eugenie White asked whether the Council could not meet part or all of its borrowing requirement from its own cash reserves. Pat Gough said that the Council already did this, resulting in the difference between outstanding debt and the underlying need to borrow.

RESOLVED THAT

The report be noted.

43. COMBINED RISK MANAGEMENT HIGHLIGHT REPORT

Michael Sloniowski, Principal Consultant- Risk Management, introduced the report, which set out work on risk management within the Council since the last

Committee meeting. The report set out the outcome of internal audit's assessment of the Council's risk standard's compliance with the British Standard for risk management, which was appended to the report. The Corporate Risk Register was also appended to the report: significant changes included the addition of an opportunity risk with regards to the proposed merger of services with Westminster and Kensington & Chelsea and the removal of the risk that related to PCT integration.

Councillor Ginn asked about the structure of the Council's risk management function, in the light of integration with other Councils and the potential for rising demand on the service. Michael Sloniowski said that while he was the only officer whose principle role was risk management, there were also officers working on insurance matters, business continuity and emergency services; these services were working increasingly closely together prior to integration.

Eugenie White raised four issues that she felt were not captured in the Corporate Risk Register- firstly, the IT Business Continuity already discussed; secondly, the risk of an interest rate rise and/or decline in market value on asset sales failing to reach target values in the Council's financial strategy; thirdly, the risk of a serious incident connected to the Council's child protection and responsibilities for looked-after children, particularly should it generate media interest, and; fourthly, that the Civic Accommodation project should, as with the Shepherds Bush Market, be included as a risk.

With regard to the point raised on the risk to the Council's budget strategy, Michael Sloniowski said that officers had recently refreshed the finance risks, and the issue of potential market saturation was on the MTFs risk register. With regard to the corporate parenting risk, he said that the issue was likely on the departmental risk register, but that he would review its status with the Director of Children's Services. With regard to the risk surrounding the Civic Accommodation project, he said that he would take the matter up with EMT.

In response to a question from the Chairman on the risk arising from the merger, Councillor Botterill said that the project was at an early stage. The intention was for those elements that offered short-term gain to be fast tracked, whilst other issues, such as IT systems, would need to be addressed in the longer term. Though this approach did not entirely synchronise with the Comprehensive Spending Review, the intention to proceed was firm.

Councillor Murphy raised concerns that mergers often did not deliver the proposed cost savings, with different organisational cultures a key factor; this formed a significant risk to the project achieving its aims, particularly as mergers lay outside the normal experience of many Council staff.

Councillor Botterill said that the parallel nature of the organisations meant that the difficulty of operational integration was considerably diluted, noting that cultural differences had also existed between departments within the Council and between the Council and PCT. Councillor Iggulden also noted that an excessive price paid for an acquisition was often the cause of mergers failing to achieve the forecast financial return, something that would not apply in the Council's case.

Jane West, Director of Finance and Corporate Services, said that mapping the different organisational cultures was a key stage of the project, and already under way. She noted that senior management at all three Council included individuals with experience of private sector mergers and acquisitions. She also noted that the Council had already partially undertaken a merger with the PCT, gaining valuable experience.

RESOLVED

THAT

The review of the Hammersmith and Fulham Risk Standard, and the latest iteration of the Corporate Risk Register, be noted.

44. CORPORATE ANTI FRAUD SERVICE Q2 FRAUD REPORT 2010-11

Geoff Drake, Chief Internal Auditor, introduced the report which set out the work of the Corporate Anti-Fraud Service in Quarter 2 of the 2010/11 financial year. There had been 13 successful prosecutions, with £300,000 in direct cash benefit. 20 properties had been recovered and 73 persons removed from the register. Using the Audit Commission's recommended scales, the value of the Service's work during the period to the Council was £9.7 million. A new Head of Service, Kirsten Quinn, had also been recruited.

Councillor Iggulden asked whether investigative costs were included in the costs the Council claimed in court. Geoff Drake confirmed that they were.

Councillor Murphy asked whether, in the light of the strong performance, targets had been adjusted upwards. Geoff Drake confirmed that they had been.

RESOLVED THAT

The report be noted.

45. INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 JULY TO 30 SEPTEMBER 2010

Geoff Drake, Chief Internal Auditor, introduced the report, which set out internal audit activity in the quarter to 30 September 2010. Since the last Committee meeting, 1 nil assurance report had been issued, in relation to IT Business Continuity, with actions to address discussed elsewhere on the agenda. 3 reports had offered limited assurances, with all recommendations reported as implemented. Overall, only 1 recommendation was more than 6 months past the target date for implementation.

In relation to the execution of the year's audit plan, there was some lag in performance, and the Council was holding meetings with the contractor to discuss mitigating measures.

Councillors asked what consideration had been given to a change of contractor, both in the light of the performance shown by the contractor, and the fact that they had been the Council's auditor for some time, a position often rotated in the commercial sector.

Geoff Drake said that consideration had been given to a change, but a change would be expected to entail a considerable rise in costs at a time when savings were being sought, and that the quality of audit work undertaken was good. As such, work was underway to refocus the internal audit resource on risk based auditing, reducing the number of audits. Jane West, Director of Finance and Corporate Services, noted that the change in Deloitte audit manager had meant that the Council received a broader perspective, whilst Hitesh Jolapara, Deputy Director of Finance, said that the Audit Commission as External Auditor diluted the risk of retaining the same internal auditor, not least through their periodic audit of the internal audit service.

Councillor Ginn asked whether there would be a significant change in audit activity as a result of the reorganisation of schools and health. Geoff Drake said that schools activity would depend on the rate at which schools converted to Academy status, and that there would be coverage of governance arrangements for the Council as a result of any proposed outsourcing of work such as the proposals with CLCH.

RESOLVED THAT

The report be noted

46. PROPOSALS FOR REPORTING TO THE AUDIT AND PENSIONS COMMITTEE

Geoff Drake, Chief Internal Auditor, introduced the report, which set out proposals for modifying the reports received by the Committee. The report proposed alterations to reports submitted to the Committee, including

- Reducing Corporate Anti-Fraud Service reporting to a six-monthly basis, with a more regular newsletter distributed to members
- Circulating Limited and Nil assurance Internal Audit reports separately to the agenda
- Reducing the number of appendices to the regular Risk Management report, with these circulated

Councillor Murphy and Eugenie White raised concerns that the Committee's role should not be compromised by a reduction in information received, and that members should receive hard copies. Geoff Drake clarified that members would receive the same quantity of information, and would continue to receive hard copies of the documents that were no longer part of the hard copy agenda.

Councillor Ginn requested that officers attempt to dispatch hard copy agendas to members sooner. Officers agreed to examine what was possible, noting that certain reports were only available shortly before the statutory deadline for dispatch.

RESOLVED THAT

The proposals regarding reporting be agreed for implementation for the Committee's February meeting.

47. EXCLUSION OF THE PUBLIC AND PRESS

RESOLVED THAT

Under Section 100A (4) of the Local Government Act 1972, the public and press 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 of the said Act, and that the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information.

48. MINUTES OF THE MEETING HELD ON 22 SEPTEMBER 2010- EXEMPT ASPECTS

RESOLVED THAT

- (III) That the exempt minutes of the meeting held on 22 September 2010 be agreed as a true and correct record, and;
- (IV) That the outstanding actions be noted.

49. COMBINED RISK MANAGEMENT HIGHLIGHT REPORT- EXEMPT ASPECTS

RESOLVED THAT

The report be noted.

Meeting started: 7.00 pm
Meeting ended: 8.52 pm

Chairman

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