



London Borough of Hammersmith & Fulham

Audit and Pensions Committee Minutes

Thursday 17 February 2011

PRESENT

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

Trade Union Representative: Sheela Selvajothy

In attendance:

Alison Hamilton, Barnett Waddingham
Helen Smith and Simon Jones, P-Solve
Jon Hayes, District Auditor, Audit Commission
Julian McGowan, Audit Manager, Audit Commission

Officers:

Geoff Alltimes, Chief Executive
Jane West, Director, Finance and Corporate Services
Pat Gough, Assistant Director, Business Support
Geoff Drake, Chief Internal Auditor
Michael Sloniowski, Principal Consultant-Risk Management
Bob Pearce, Group Accountant- Technical
Janette Mullins, Head of Litigation
Owen Rees, Committee Coordinator

50. MINUTES OF THE PREVIOUS MEETING

RESOLVED THAT

- (i) The minutes of the last meeting be agreed as a true and correct record, subject to the addition of the following:

After paragraph 3 of Item 46 "Proposals For Reporting To The Audit And Pensions Committee", insert "Councillor Murphy said that, while he did not object to a change in scheduled date for one of the Committee's meetings, he asked that a clear rationale be provided for the move, when one was necessary."

- (ii) That the outstanding actions be noted.

51. APOLOGIES FOR ABSENCE

There were apologies from Councillor Botterill and Eugenie White.

52. DECLARATIONS OF INTEREST

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

Councillor Cartwright declared a personal interest in all items as a member of the Council's pension fund. Councillor Cartwright declared a personal interest in respect of Item 17 as a local authority appointed Governor of Larmenier and Sacred Heart Junior School, and a personal interest in respect of Items 4, 5 and 6 as a member of the Mortlake Crematorium Board.

53. ACTUARIAL VALUATION OF THE PENSION FUND

Alison Hamilton, Barnett Waddingham, introduced the report which set out the results of the draft Actuarial Valuation of the Pension Fund. The valuation, which must be produced every 3 years, was used to set appropriate contribution rates to the Fund, with the aim of recovering any deficit over a long term.

The valuation showed that the Fund was now 74 percent funded, an improvement on the 70 percent funding level at the last valuation. (The report had erroneously stated that this represented a decrease in funding level). The Fund had experienced a 6% return on investment over the period, against a target of 6.5%.but the actuary was able to keep employer contribution rates stable.

Councillor Cartwright asked whether the return on investment was disappointing, given the failure to meet target. Alison Hamilton said that the return was good, given the prevailing economic climate during the period covered, adding that other authorities had seen a negative return on investment for the period.

Councillor Iggulden asked about contribution rates. He noted that the improvement in the funding level would appear to give scope for a reduction in the employers' contribution rate, which had risen considerably from the rate paid ten years previously. He questioned why the actuary did not offer employers a reduction in contribution rates, given the reduction in the deficit.

Alison Hamilton said that the employer rates were based on a number of assumptions, including a 25 year recovery of the deficit. In her view, any reduction in the employer's rate for the Council, would, based on the current assumptions, mean that the deficit would not be recovered within that period. Further, although the overall payroll had reduced, and was expected to continue to reduce due to continuing reductions in staff numbers, the amount of employer's contribution in cash terms needed to meet the deficit did not fall, so that the contribution rate, as a

percentage of payroll required to recover the deficit remained high. The fund's stability was a requirement of the regulations, and a reduction in the rate of employer contributions was not advisable at the time of the valuation.

Pat Gough, Assistant Director of Finance, explained when the employer's contribution rate had risen. The 2001 Actuarial Valuation had valued the fund as 98% funded, but the 2004 Actuarial Valuation saw that figure fall to 66%. This had prompted the rise in the employer contribution rate, which had stood at 12.3% in 2004/05. The typical contribution rate for a fund that was neither in deficit nor surplus was 13-14%.

The Chairman asked how future developments, including the reduction in staff numbers and investment conditions, were reflected in the valuation, and what the position was with regard to the scheme's deficit and the actuary's advice on its recovery.

Alison Hamilton said that, in response to the latter point, the actuary's recommendations were binding on the Council, rather than a matter for the Committee to decide, though her recommendations were made with a smooth rate of contribution in mind. She noted that, if the period for recovery of the deficit was extended beyond 25 years, the fund would struggle to pay off its deficit. With regard to the question of future events, and events after the 31st March 2010, the final report would have a section on post valuation events, but would not be able to take account of events in the future, including the new scheme likely to be introduced.

Councillor Murphy asked what the impact of increasing retirement ages was likely to be. Alison Hamilton said that a later state pension date would likely mean that workers, particularly lower-paid ones, would retire later, with pensions likely to be payable for a smaller number of years as a consequence; the extent of this effect was hard to determine, however.

With regard to the figure given for investment income on page 33 of the report, Bob Pearce clarified that the fall was the result of the way in which the Barings mandate operated.

RESOLVED THAT

- (i) The draft actuarial report be agreed, and;
- (ii) That approval of the finalised report be delegated to the Director of Finance and Corporate Services, prior to 31 March 2010.

54. FUNDING STRATEGY STATEMENT

Bob Pearce, Group Accountant- Technical, introduced the report, which set out the Funding Strategy Statement for the Fund. The Statement was being amended in the light of the outcome of the actuarial valuation, with the two mutually dependent.

As required by the terms of the Fund's regulations, officers would be consulting with all employers participating in the fund, prior to 31 March 2010.

RESOLVED THAT

- (i) The Funding Strategy Statement be approved, prior to consultation with all participating employers in the Fund, and;
- (ii) To delegate the finalisation of the Statement, following consultation, to the Director of Finance and Corporate Services.

55. PENSION VALUE AND INVESTMENT PERFORMANCE

Helen Smith, P-Solve, introduced the report which set out the performance of the Fund's investments in the quarter to 30th December 2010. She noted that the 6.5% return for 3 years matched the target set by the Actuary. She said that P-Solve were generally comfortable with the performance of the fund, though the coming year could be a challenging one for the fund. She also drew the Committee's attention to the change in management structure at Ruffer.

Councillor Iggulden asked that, where the Performance Overview and Asset Reconciliation and Valuation showed negative figures in red, an explanatory note be provided.

With regards to the performance of the Goldman Sachs mandate, Simon Jones, P-Solve clarified that the 3 year figure for the mandate was an aggregate of the performance of the old mandate against the old benchmark and the new mandate against the new benchmark, which accounted the discrepancy.

RESOLVED THAT

The report be noted.

56. GOVERNANCE COMPLIANCE STATEMENT

Bob Pearce, Group Accountant- Technical, introduced the report, which set out the Governance Compliance Statement, which assesses the Council's compliance against the standards for Pension Scheme governance set by the Department of Communities and Local Government.

The statement had been amended to include the new Terms of Reference for the Committee, agreed by full Council in May 2010, when the Pensions Fund Investment Panel merged with the Audit Committee. The statement showed that the Council was mainly compliant.

RESOLVED THAT

The Governance Compliance Statement be approved.

57. ANNUAL REVIEW OF RETIREMENTS 2009-2010

Pat Gough, Assistant Director- Business Support, introduced the report, which set out retirements by, and redundancies of, Council staff in the 2009-10 financial year. The former was supplied annually to the Committee, whilst the latter was provided at the Committee's request.

Councillor Murphy asked if any pattern had emerged around the causes of retirement on the grounds of ill-health. Jane West, Director of Finance and Corporate Services, said that this information would require collation, and interrogation, and that officers would therefore respond outside the meeting, on the basis of the previous 3 or 4 years worth of retirements.

Councillor Iggulden asked for clarification of the figures given as capital cost for retirements. Pat Gough said that this was an estimate of the cost for an early retirement, made with the assumption of normal mortality rates.

Councillor Cartwright asked whether any payments had been made for "added years". Jane West said that, in general, the practice had ceased, on the grounds that it could be construed as age discrimination, though where retirement was on the grounds of ill-health, enough years were added to bring the individual up to retirement age.

RESOLVED THAT

- (i) Officers be requested to check whether there was any common trend to ill-health early retirements and report this to the Committee, and;
- (ii) The report be noted.

58. TREASURY MANAGEMENT STRATEGY 2011-2012

Pat Gough, Assistant Director- Business Support, introduced the report, which set out the Treasury Management Strategy for 2011/12, prior to its submission to Council for approval. She said that the strategy, compiled in accordance with CIPFA best practice, set out the Council's borrowing requirements and proposed lending activity for the 2011/12 financial year. It would seek authority to expand the lending list, adding some foreign banks to the list. This was in response to new regulations on deposits, which would restrict the availability of call accounts, which the Council had used to add value; all deposits would be made in sterling at UK based offices.

Councillor Ginn asked about the Council's appetite for risk in its lending. Pat Gough said that the Council was relatively conservative, in common with most authorities, though less conservative than the Royal Borough of Kensington and Chelsea, for instance. The proposed move away from UK only investing in the coming year was a common one amongst other authorities.

Councillor Murphy asked about the structure of maturing loans in 2011/12. Pat Gough agreed to write to the Committee with this information.

RESOLVED THAT

The report be noted.

59. WORMWOOD SCRUBS 2009-10 ANNUAL GOVERNANCE REPORT

Julian McGowan, External Audit Manager, Audit Commission, introduced the report, which set out the results of the 2009-10 audit of the Wormwood Scrubs Charitable Trust Accounts. He said that it was a small audit, which gave an unqualified opinion and found that internal controls were adequate. With regard to the letter of representation, the final version had been signed by the new permanent Assistant Director Parks and Culture.

RESOLVED THAT

The report be noted.

60. AUDIT OPINION PLAN FOR LBHF ACCOUNTS 2010-11

Jon Hayes, District Auditor, Audit Commission, introduced the report, which set out the Audit Opinion Plan for the Council's accounts for 2010-11. He drew the Committee's attention to the fact that the accounts would be the first presented under the International Financial Reporting Standards (IFRS).

RESOLVED THAT

The report be noted.

61. AUDIT OPINION PLAN FOR LBHF PENSION FUND 2010-11

Jon Hayes, District Auditor, Audit Commission, introduced the report, which set out the Audit Opinion Plan for the Council's Pension Fund accounts for 2010-11.

RESOLVED THAT

The report be noted.

62. ANNUAL GOVERNANCE STATEMENT AND AUDIT COMMISSION RECOMMENDATIONS

Geoff Drake, Chief Internal Auditor, introduced the report, which updated on progress on Audit Commission recommendations, and on progress against the Annual Governance Statement.

With regards to the non-response received for R9- "Grants 2008-09- NDC", he confirmed that it would now be part of the protocol that, where no response was received, the officer responsible would be invited to give a verbal update to the Committee.

With regards to R2 "Ensure the capacity of the finance team is maintained, Councillor Murphy asked what factors enabled the risk to be closed. Jane West, Director of Finance and Corporate Services said that concerns about departed members of staff had been alleviated, with those staff replaced, with the upcoming implementation of World Class Financial Management also contributing.

With regards to the closure R5, regarding collaborative arrangements with Westminster and Kensington and Chelsea, the Committee asked officers to consider how progress on, and the management of risk within the project, might best be reported to it.

RESOLVED THAT

- (i) The report be noted, and;
- (ii) That officers consider how best to report to the Committee on the risk management of the three-boroughs project for the next meeting of the Committee, and that;
- (iii) That the officer responsible be asked to provide the Committee with a response to R9.

63. IFRS UPDATE

Caroline Wilkinson, Head of Finance Development, introduced the report, which set out progress towards the implementation of the International Financial Reporting Standards. The project was on track to produce restated accounts for 2009-10 by the March 31st deadline, before the 2010/11 accounts were produced. Officers had worked closely with the Audit Commission throughout the process, and of the risks identified, only those connected with Leases were still Amber.

The change to IFRS would have no bottom line implications, reflecting the CIPFA guidance on the matter though some alteration in the allocation of lease income to capital or revenue budgets was possible. Further update on the implementation of IFRS would accompany the 2010/11 accounts.

RESOLVED THAT

The report be noted.

64. COMBINED RISK MANAGEMENT HIGHLIGHT REPORT

Michael Sloniowski, Principal Consultant- Risk Management, introduced the report, which summarised the high-level risk management activity undertaken since the last meeting of the committee. Key activities in the period included a full review of the corporate risk register and aligning with the audit review of project and programme management, ensuring that there was suitable integration of risk management. Work was also ongoing to ensure that reporting processes were streamlined.

RESOLVED THAT

The report be noted.

65. INTERNAL AUDIT PLAN 2011-12

Geoff Drake, Chief Internal Auditor, introduced the report, which set out the audit plan for the 2011/12 financial year. He said that a new contract would be in place for the new financial year, which had been approved by Cabinet, under the Croydon framework with Deloitte that would produce a 20.1% saving. Work would be concentrated in key areas for the Council, both of concern and of importance, with the programme retaining a reasonable level of contingency.

RESOLVED

THAT

The report be noted.

66. INTERNAL AUDIT QUARTERLY REPORT

50. INTERNAL AUDIT QUARTERLY REPORT

Geoff Drake, Chief Internal Auditor, introduced the report, which set out internal audit activity in the period to 31st December 2010. 9 audit reports were finalised in the quarter, 8 FMSIS Inspection letters and 8 other management letters were issues, together with 4 other follow-up audits. Of the reports issued, 1- that on project and programme management had been issued with limited assurance, and 1- on St Mary's Primary School- had been issued with nil assurance.

Councillor Cartwright asked what the auditor did, in the light of the serious concerns raised by the report on St Mary's, and whether the Diocesan Board was involved. Geoff Drake said that the report was undertaken on behalf of the school's Governing Body, and was reported to the Director for Children's Services.

With regards to concerns expressed by Councillor Iggulden regarding the missing documentation, Geoff Drake said that the auditors had performed substantive testing and found no evidence of fraud or theft. Councillor Iggulden asked whether, given the missing documentation at the school's last audit, a follow-up audit should have been held sooner. Geoff Drake said that the last audit opinion had given substantial assurance, hence the timing of the audit.

The Chairman asked whether the difficulties were symptomatic in schools. Geoff Drake said that they were not, with many schools receiving substantial assurance. The Audit Service compiled an annual report picking out areas of common concern, and report these to Children's Services. The Committee, having noted the increased distance between schools and the LEA, agreed to ask the Director of Children's Services to write to it to describe the steps taken by Children's Services in response to such an audit. It also requested that officers submit the summary annual report on schools to it.

Councillor Murphy noted the concerns expressed around project management capacity in the audit report on project and programme management, and asked whether this was a risk, given the demand that the merger would place on these skills and on those training in the use of them. Jane West, Director of Corporate and Financial Services, said that the Council was currently recruiting senior project management professionals who would lead on training other staff in this area. She said that she was confident that, by bringing in this extra expertise, the Council could then grow the skills it required in-house.

Councillor Murphy suggested that this was a suitable area to be picked up in a regular reporting process on the risk management of the merger, as agreed under Item 62.

RESOLVED THAT

- (i) The Director of Children's Services be requested to write to the Committee setting out the steps taken in response to the audit of St Mary's Primary School, and;
- (ii) Officers be requested to submit the annual report on schools audits prepared for the borough's head teachers to the Committee, and;
- (iii) The report be noted.

51. ALMO CHIEF EXECUTIVE & SENIOR HOUSING MANAGEMENT- OPEN ASPECTS

Geoff Alltimes, Chief Executive, introduced the report, which set out the rationale and process for the recruitment and employment of Nick Johnson as Chief Executive of H & F Homes.

Councillor Murphy asked which officer had prepared the report. Geoff Alltimes said that it contained work from a number of officers, including the Assistant Director of Legal and Democratic Services and the Director of Finance and Corporate Services, but that he took responsibility for its contents.

Councillor Cartwright said that, while he had not been personally involved in the matter, he had seen the correspondence between officers and other members, and the press coverage of the matter. He expressed concern that the Council had

employed an individual with a local government pension, in such a way as to circumvent the rules against doing so.

Jane West, Director of Finance and Corporate Services, clarified that it had been H & F Homes acting as employer, and that the rules of the LGPS at the time of Nick Johnson's retirement did not prevent him working for another local authority as a consultant whilst continuing to receive his pension.

As discussion of the process of Nick Johnson's appointment contained information relating to other individuals, the Committee moved to close the meeting to the public. The Committee's subsequent discussion is outlined in 72. ALMO Chief Executive and Senior Housing Management- Exempt Aspects.

At the conclusion of the exempt elements of that discussion, Councillor Murphy, seconded by Councillor Cartwright, moved that the Committee agree to refer the matter to the District Auditor, asking him to investigate, and called for a recorded vote.. The outcome of a vote on the resolution was as follows

For: 2

Against: 3

Those in favour: Councillors Murphy and Cartwright
Those against: Councillors Adam, Ginn and Iggulden

Councillor Murphy, seconded by Councillor Cartwright, then moved that the Committee write to the London Borough of Bexley, advising them of the position of Nick Johnson, as a pensioner of that borough, as Chief Executive of H & F Homes, calling for a recorded vote. The outcome of a vote on the resolution was as follows

For: 2

Against: 3

Those in favour: Councillors Murphy and Cartwright
Those against: Councillors Adam, Ginn and Iggulden

The Committee agreed that officers should be requested to examine the contract held with Johnson Davies Ltd and any similar contracts with service companies or agencies held by the Council or by H & F Homes, currently or in the recent past, to ensure that there was no potential National Insurance liability to the Council or H & F Homes, with appropriate indemnity arrangements.

RESOLVED THAT

- (i) The report be noted, and
- (ii) That officers should be requested to examine the contract held with Johnson Davies Ltd and any similar contracts with service companies or agencies held by the Council or by H & F Homes, currently or in the recent past, to ensure that there was no potential National Insurance liability to the Council or H & F Homes, with appropriate indemnity arrangements

52. EXCLUSION OF THE PRESS AND PUBLIC

The Committee resolved, under Section 100A (4) of the Local Government Act 1972, that 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 1 and 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.

53. ALMO CHIEF EXECUTIVE AND SENIOR HOUSING MANAGEMENT- EXEMPT ASPECTS

The outcome of the exempt aspects of the Committee's discussion are outlined in item 51

54. LEGAL AND GENERAL MATCHING FUND MANDATE

RESOLVED THAT

The recommendations of the exempt report be agreed.

55. PENSIONS ANNUAL BUSINESS PLAN

RESOLVED THAT

The recommendations of the exempt report be agreed.

Meeting started:

7.02 pm

Meeting ended: 10.00 pm

Chairman

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