



London Borough of Hammersmith & Fulham

Audit and Pensions Committee Minutes

Thursday 22 September 2011

PRESENT

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

Also present: Julian McGowan, Audit Manager, Audit Commission, Helen Smith and John Conroy, P-Solve, Sheela Selvajothy, trade union representative

Officers: Jane West, Director of Finance and Corporate Services, Hitesh Jolapara, Deputy Director of Finance, Pat Gough, Assistant Director- Business Support, Geoff Drake, Chief Internal Auditor, Michael Sloniowski, Principal Consultant- Risk Management, Eric Norman, Head of Accounting and Capital and Owen Rees, Assistant Committee Coordinator.

23. MINUTES OF THE PREVIOUS MEETING

RESOLVED THAT

- (i) The minutes of the meeting held on 30th June 2011 be agreed as a true and correct record, subject to Eugenie White being shown as present, and,
- (ii) The outstanding actions be noted.

24. APOLOGIES FOR ABSENCE

There were none.

25. DECLARATIONS OF INTEREST

Councillor Cartwright and Councillor Murphy declared personal interests in items 26, 28 and 29 as members of the London Borough of Hammersmith and Fulham Pension Fund.

26. PENSION VALUE AND INVESTMENT PERFORMANCE

Helen Smith, P-Solve, introduced the report, which set out the performance of the Pension Fund in the quarter ending 30th June 2011. At that time, the fund was valued at nearly £595 million, plus its private equity investments, though this figure had since fallen. She characterised the fund's performance in the 2nd quarter as reasonable but lacklustre, though she noted that both Majedie and MFS had shown improved performance. With regards to the Matching Fund, she said that Legal and General were unable to match their benchmark, given the terms of their mandate; as such, Goldman Sachs had a greater degree of culpability for the underperformance of the Matching Fund than Legal and General. In response to a question from Eugenie White regarding the underperformance against the benchmark, given the way that the fund's holdings were concentrated in index-linked gilts, Helen Smith said that the benchmark was complex, and that the mandate was being undertaken in the way the Council had requested: the proposed adjustments to the Legal and General mandate would address the issue.

Councillor Murphy asked why the implementation of the revised mandate had taken nearly 12 months, given that the speed of implementation was one of the reasons for working with L & G. Ms Smith said that counsel's opinion on the proposal's legality had taken 6 months to acquire, with further negotiations about the structure of the mandate and its benchmarking. She said that negotiations were outstanding on what could be held in the portfolio, and on the fee. L & G had wanted reassurances that the product sold was what the Council wanted, and P-Solve were expecting implementation to take place in mid-November. The Chairman requested that P-Solve agree an implementation strategy with L & G

Eugenie White asked whether the figures given reflected LIBOR's recent divergence from the base rate. Helen Smith confirmed that it did, albeit that the difference had become more pronounced in the then current quarter

With regards to Majedie, she said that the fund had, when measured against the benchmark, underperformed during the stock market rallies of 2009 and 2010. However, a large proportion of the holdings with Majedie were defensive in nature, especially those in its Tortoise Fund. As such, P-Solve would, given the market conditions, recommend Majedie's retention. In response to a query from Councillor Ginn, Pat Gough agreed to recirculate the information given on the number of stocks held by Majedie.

Eugenie White asked about the Majedie fee structure, given the general fall in the market rate. Pat Gough, Assistant Director, Business Support, said that she had asked P-Finance to investigate fee structures, and had been told that the basic fees were normal, though performance fees were high. She said that she had asked for more detail on the types of arrangements.

Councillor Murphy asked if monies could be moved between mandates without recourse to a tender process. Officers said that it could.

In response to a question regarding the asset class breakdown, Helen Smith said that she would check whether and how the emerging market equities mandate held by MFS was reflected in the figures.

Councillor Botterill asked whether there was an up-to-date estimate on the value of the fund. Pat Gough said that the custodian had given a figure of £572 million on the day preceding the meeting.

Councillor Murphy asked about the Fund's holdings in commodities, and whether this was contained within the "other" category. Helen Smith said that the fund's exposure to commodities came through direct exposure, with gold held directly by the dynamic asset allocation mandates, and through indirect exposure to exchange-traded-funds and mining and similar stocks. She noted that, where exposure was through equities, the value of those equities was split

Councillor Iggulden noted that mining stocks often entailed greater exposure to commodities prices in general, than the gold price in particular, and the Chairman said that the percentage of the fund held directly in gold appeared to be lower than anticipated.

Pat Gough gave the percentage of gold and gold exchange traded funds held by Barings and Ruffer (11 and 7 respectively). Helen Smith said she would check what the figure was for the whole fund and respond to the Committee.

With regards to the performance of the fund during the third quarter, Helen Smith said that Majedie and MFS had performed relatively well given the turbulent market conditions for equities, and that Barings and Ruffer had also performed well.

RESOLVED THAT

The report be noted.

27. TREASURY MANAGEMENT UPDATE

Pat Gough, Assistant Director- Business Support, introduced the report, which presented the Treasury Management outturn for the 2010-11 financial year. She said that no new borrowing had been undertaken in the year, and the report covered the investment activity undertaken during the period.

Councillor Adam asked about the use of money market funds. Pat Gough said that investments had been made with 3 funds, all of which were AAA-rated, liquid and highly diversified in their holdings. In response to a question regarding the interest rates the Council received, she said that this corresponded to the Council's use of term deposits.

Councillor Murphy asked how much of the Council's debt required interest to be paid on it. Hitesh Jolapara, Deputy Director of Finance, said that all the Council's external debt required interest to be paid on it.

Eugenie White asked if, given the large spread between interest payable on borrowings and receivable, there were ways in which the Council could manage its debts and investments differently. Pat Gough said that much of the Council's

borrowing was over very long terms, and with penalty clauses for early repayment. However, £16 million of debt was maturing during the coming year, which would be refinanced through management of existing balances. In response to a question from Councillor Ginn, she confirmed that another £10 million would mature 2 years later.

Hitesh Jolapara said that the Council was also looking at HRA reform and Treasury Management implications of the treatment of HRA debt.

RESOLVED THAT

The report be noted

28. LONDON BOROUGH OF HAMMERSMITH AND FULHAM STATEMENT OF ACCOUNTS, INCLUDING PENSION FUND FOR 2010/11

Hitesh Jolapara, Deputy Director of Finance, introduced the report, which had appended to it the Council's annual statement of Accounts and the Council's Pension Fund Accounts for 2010/11, together with the Annual Governance Reports 2010/11, which were compiled by the Audit Commission as the Council's External Auditor.

He said that the accounts were the first compiled following the introduction of IFRS, which had resulted in a number of changes, including in the treatment of grants, leases and of fixed assets. He said that the accounts showed an underspend of £3.3 million, whilst the HRA showed a net small overspend but retained a positive balance.

He said that the accounts showed a credit of £88 million following the move from RPI to CPI for Pension Fund calculations. The balance sheet also showed a £465 million fall in the value of assets. With regards to the Annual Governance Reports, he said that the verdict was an unqualified set of accounts and all work was now completed, with no issues outstanding.

Julian McGowan, Audit Manager, Audit Commission, said that the Audit Commission would issue an unqualified opinion on both the Statement of Accounts and the Pension Fund Accounts, together with the Value for Money assessment. He said the process was now complete subject to the receipt of signed accounts and a letter of signed representation.

He said that the production of the accounts had been inherently difficult, given the introduction of IFRS and the consequential number of technical adjustments necessary. Further, key staff had changed during the year although the Council had completed the work without additional resources. Progress had been good, with all statutory deadlines met.

With regards to comments on the accounts, he said that following last year's recommendations, that the Pension Fund's internal controls had improved, though further improvement was possible. He said that, though there were no real

concerns and no adjustments on the general fund had been necessary, one recommendation was that the Council should be assured that the accounts handed to the auditor were final, given the change in the arrangements for approval.

Councillor Botterill asked about the items on the Comprehensive Income and Expenditure that related to actuarial assumptions regarding the Pension Fund. Eric Norman, Corporate Accountancy Manager, said that the adjustments were caused by the incorporation of actuarial assumptions made in the 2010 assessment of the Fund, in relation to the change from RPI to CPI for calculating inflation, and to a reduction in long-term liabilities (Non distributed costs- General and Actuarial (gains)/losses on pension assets/liabilities respectively). He noted that small changes to assumptions could provoke large balance sheet movements. Jane West, Director of Financial and Corporate Services, said that officers would write to the Committee, clarifying the way that the most recent actuarial valuation had been incorporated into the accounts.

Eugenie White said that, with regards to page 7, it would be helpful if there was some account of the move from the original budget to the revised budget. Hitesh Jolapara said that any virements made in year were agreed by members; he said that the accounts could include a note explaining the substantive movements made in future years.

In response to questions from Councillor Botterill and the Chairman, Jane West said that the revisions were likely to be as a result of carry forwards, with the underspend attributable to a better than expected recovery rate for parking debt, following the appointment of a new firm of bailiffs.

Councillor Murphy asked why spending had fallen in the Children's Services department. Officers agreed to respond with an explanation of the figure. He also asked about the number of officers receiving more than £50,000 a year, which appeared to have risen. Jane West said that this might be the result of spinal increments, but that officers would check the figures and provide the Committee with a response.

Councillor Murphy asked about the Council's use of its overdraft facility. Pat Gough, Assistant Director of Business Support, confirmed that the Council did have an overdraft facility, but that the facility was part of the contract for the Council's bank account. As such, use of the facility did not incur interest or occasion charges as a normal overdraft might do.

RESOLVED THAT

- (i) The contents of the Auditor's Annual Governance Reports be noted, and that;
- (ii) The Council's response to the Annual Governance Reports, and that;
- (iii) The management representation letter be approved, and that;
- (iv) The Statement of Accounts 2010/11 be approved.

29. ANNUAL GOVERNANCE STATEMENT

Geoff Drake, Chief Internal Auditor, introduced the report, which contained the Council's Annual Governance Statement for 2011. He said that it was drafted in response to the comments made by the Auditor, and addressed key control weaknesses identified, including reconciliations, management of contractors, information requests and the gas safety certification of temporary accommodation.

In response to a question from Eugenie White, Geoff Drake confirmed that officers were working to incorporate the Bribery Act 2010 and other new fraud legislation into the Council's policies on whistle-blowing.

RESOLVED

THAT

The Annual Governance Statement be noted.

30. COMBINED RISK MANAGEMENT HIGHLIGHT REPORT

Michael Sloniowski, Principal Consultant- Risk Management, introduced the report, which set out risk management activity. Key updates included the completion of the IT Business Continuity project, work on Tri-Borough governance and the integration of the Housing and Regeneration department's risks to the corporate register and standard. In response to a question from Councillor Ginn regarding the integration of social care, Michael Sloniowski asked that Councillor Ginn write to him with the details of the question.

With regards to an issue with HMRC identified as a potential area of risk, Jane West, Director of Finance and Corporate Services, clarified that the issue had been in relation to the treatment of VAT payable on one of the Council's partner organisations, and that this had now been resolved in the Council's favour.

Councillor Murphy asked whether there was a risk to the regeneration of King Street from an adverse Mayoral decision. Michael Sloniowski said that there was hierarchy within each risk, which would be reflected in the register when and if appropriate.

Councillor Iggulden asked whether political risk was taken into account. Michael Sloniowski said that reputational risk to the Council was considered in compiling the risk register.

Sheela Selvajothy, trade union representative, asked whether staff morale was considered as a risk, given the reductions in staffing numbers. She said that the trade unions were encountering difficulties with the redeployment of staff, with agency staff being retained.

Michael Sloniowski said that the issue was captured as a part of the Successful Cultural Change risk. He said that staff mental health was considered by the corporate Safety Committee; Jane West said that counselling services were also available to all staff, and said that she would arrange for this information to be circulated again. With regards to the issues raised regarding redeployment, she said that the adjudication panel which reviewed all restructuring proposals checked

that agency staff were not retained if possible, but that she would look into any specific concerns referred to her.

Councillor Botterill asked whether the profile for risk was normal. Michael Sloniowski said that it was, given the Council's appetite for risk. As such, given the severity of the risks the Council faced, increases in likelihood were of greater concern.

Eugenie White noted the annual report on complaints submitted by Michael Sloniowski as an appendix to the report, and the improvements detailed. She said that complaints was a key issue for the Council, and that, in her experience, the response from service officers was often unsatisfactory, with response to Stage 2 and 3 complaints often identical to those offered at Stage 1. She asked what opportunities executive and non-executive members had to review complaints.

Councillor Iggulden and the Chairman suggested that ward Councillors could be informed of Stage 2 and Stage 3 responses, whilst Councillor Murphy said that the Council's culture was not service-orientated, and was often process driven.

Councillor Botterill said that, in the area for which he held Cabinet responsibility, many of the complaints that reached Stage 2 and 3 were in relation to parking. As such, they related to an area that was process driven, with high penalties a further contributory factor to the number and nature of complaints received. He added that the Council's responsiveness was highly improved

Jane West said that she would feed back to officers on the issues raised. The Chairman suggested that the Committee could receive a report on the complaints process at a future meeting.

RESOLVED THAT

- (i) The report be noted, and;
- (ii) That the Committee's concerns regarding complaints be referred to the Overview and Scrutiny Board.

31. H & F DIRECT LEAN PATHFINDER PROJECT

Jane West, Director of Finance and Corporate Services, introduced the report which set out initial findings from the Lean Pathfinder Project. She said that the process, undertaken with full staff involvement, had involved a "voice of the customer exercise". This had identified a number of areas in which improvements could be made, such as the Council's use of a 0845 number for the service. She said that an improvement in performance had already been achieved, before the service restructuring had been implemented.

Councillor Murphy suggested that the Council might ask those of its suppliers who made use of Lean Thinking whether they would be able to offer similar visits to one undertaken to DEFRA. Jane West said that she would raise the possibility with Organisational Development.

RESOLVED THAT

The report be noted.

32. INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 APRIL TO 30 JUNE 2011

Geoff Drake, Chief Internal Auditor, introduced the report, which set out the work undertaken by the internal audit service in the period ending 30 June 2011. He said that 2 limited assurance reports had been issued in the quarter, with 1 recommendation outstanding from them, though it had not yet reached its target date. He said that, at the time of the meeting, no reports were outstanding, with 17 recommendations outstanding, only 1 of which was 6 months past the target date for implementation.

RESOLVED THAT

The report be noted

33. 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 paragraphs 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.

34. EXEMPT MINUTES OF THE MEETING HELD ON 30 JUNE 2011

RESOLVED THAT

The exempt minutes of the meeting held on 30 June 2011 be agreed as a true and correct record, subject to Eugenie White being shown as present.

Meeting started: 7.00 pm
Meeting ended: 9.35 pm

Chairman

Contact officer: Owen Rees

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