

Audit, Pensions and Standards Committee Minutes

Thursday 5 December 2013

PRESENT

Committee members: Councillors Michael Adam (Chairman), Robert Iggulden, Michael Cartwright, PJ Murphy (Vice-Chairman), Lucy Ivimy and Charlie Dewhirst

Other Committee Members: Eugenie White

Officers: Jane West, Executive Director of Finance and Corporate Governance, Mel Barrett, Executive Director of Housing and Regeneration, Stephen KIRRAGE, Director of Property Services and Asset Management, Hitesh Jolapara, Bi-Borough Director of Finance, Jonathan Hunt, Tri-Borough Director of Pensions and Treasury, Nick Austin, Bi-Borough Director of Environmental Health, Geoff Drake, Senior Audit Manager, Michael Sloniowski, Bi-Borough Risk Manager, Andrew Hyatt, Bi-Borough Head of Fraud, Richard Buckley, Bi-Borough Head of Corporate Safety and Residential Operations, Nicola Webb, Tri-Borough Pensions Officer and Owen Rees, Committee Coordinator.

1. MINUTES OF THE PREVIOUS MEETING

In response to a question from the Chairman, Jane West, Executive Director for Corporate Finance and Governance, said that the auditor had rejected the objections to the accounts and would be issuing the certificate shortly.

RESOLVED THAT

The minutes of the meeting of the Committee on 26th September be agreed as a true and correct record.

2. APOLOGIES FOR ABSENCE

There were none.

3. DECLARATIONS OF INTEREST

Councillor Murphy declared a pecuniary interest in item 122, and left the meeting during discussion of that item.

4. ACTUARIAL VALUATION

Jonathan Hunt, Tri-Borough Director of Treasury and Pensions, introduced the report, which set out the findings of the triannual actuarial valuation of the Pension Fund. He said that the valuation was based on the 31st March 2013, though the actuary made changes where material information emerged after that date. He said that the Committee had had two informal meetings with the actuary during the process.

He outlined the key assumptions used by the actuary, particularly their use of an Economic Discount Rate, rather than a Gilt Based Discount Rate. He explained the factors considered in devising the Economic Discount Rate, as it related to gilts and to equities, the formula used to weigh them, and the increased stability of contribution this offered the Council.

Councillor Ivimy asked how a change to the make-up of the fund might affect the actuary's view of the level of funding. Mr. Hunt said that the actuary had based the discount rate on the asset allocation on page 14, and he would supply the Committee with an answer as to how a change in allocation would affect the weighted averages used in devising the discount rate.

Mr Hunt then set out the membership breakdown of the fund, noting that only 26% of members were still contributing, with the rest either deferred or retirees. In response to a question from Councillor Murphy, Mr. Hunt confirmed that the majority of deferred members no longer worked in local government, or had ceased to pay into their pension.

Mr Hunt set out the changes to the LGPS from 2014, including the introduction of the 50/50 scheme. He then gave the ongoing costs of the scheme to the employers, which would be 14.2% of members' salaries owed as an employer contribution, with the deficit recovery element taking the total to 22.3%. He noted that the Council now expressed the deficit recovery element as a cash scheme. He said that this would lead to a £500,000 annual reduction in contributions by the Council over a 3-year period, and a 22 year recovery period. Mr. Hunt noted that, while the Council held discussions with the actuary, the regulations around pension provision bound the employer to implement her judgement.

Councillor Murphy asked what the impact of retaining contribution levels at their previous rate would be on the recovery period. Mr. Hunt said that the sum involved was small in relation to the fund as a whole, but he would provide an exact answer.

Councillor Iggulden said that the performance of the Fund during the period since the last valuation reflected credit on those managing funds on behalf of the fund, and the Committee's advisers. He said that some acknowledgement of the Committee's thanks should be sent to them as a result.

The Chairman agreed with Councillor Iggulden's suggestion, and said that the strong performance of the fund meant that only an evolutionary change to asset allocation was necessary.

Councillor Cartwright asked about the Government consultation to merge funds. Mr. Hunt said that the Government was consulting on three options, which included a single scheme, a single investment scheme and 5 to 10 schemes.

Eugenie White said that she was concerned at the diminution of the “trustee” role, particularly as the reform could see local government pension schemes becoming primary investors in infrastructure. She noted that larger funds had produced increased benefits in the Netherlands, but that without comparable investment strategies, the comparison might not hold.

The Chairman said that there were infrastructure funds that could be invested in by funds, and that collective vehicles were being established; as such, he did not believe that assets need to be pooled. However, it was the case that fund managers had benefited from fragmentation and been able to charge different and higher fees to different councils.

RESOLVED THAT

The initial results of the 2013 actuarial valuation of the Pension Fund be noted.

5. PENSION VALUE AND INVESTMENT PERFORMANCE

Jonathan Hunt, Tri-Borough Director of Treasury and Pensions, introduced the report, which set out the Fund’s performance in the quarter to 30th September 2013. He noted, in light of the fund valuation, that Majedie, MFS, and Ruffer had comfortably outperformed their benchmark over the valuation period, while Barings and Goldman Sachs had marginally outperformed theirs. He added that the Legal and General mandate was linked to the fund’s liabilities, and negative performance may not be entirely disappointing.

Councillor Iggulden asked whether managers with a similar mandate to Goldman Sachs had delivered better performance. Mr Hunt said that he would supply the Committee with comparator data.

Councillor Ivimy asked why the Legal and General mandate was in place. Eugenie White said that the mandate, which had been proposed by P-Solve, was designed to mitigate interest rate risk. She said that rising interest rates might make for stronger performance. The Chairman said that a review of Matching Fund strategy was necessary.

Councillor Ivimy asked about the level of risk in the Majedie portfolio. Mr Hunt said that the risk was not excessive, but that Majedie had held a number of stocks which had performed well, and had been operating under a revised mandate since July 2012 which allowed them to invest in a small proportion of overseas equities.

RESOLVED THAT

The report be noted.

6. PENSION FUND MANAGER BRIEFINGS

Jonathan Hunt, Tri-Borough Director of Treasury and Pensions, introduced the report, which set out a proposal to hold four briefings to allow the Committee to meet with its fund managers. He said that officers from the Pensions team would attend, and make a note, which would be submitted to the next meeting of the Committee, together with any presentations received.

RESOLVED THAT

Separate quarterly briefings are set up with fund managers, with a summary of each briefing reported back to the next Committee meeting.

7. TREASURY MID-YEAR REVIEW 2013-14

Jonathan Hunt, Tri-Borough Director of Treasury and Pensions, introduced the report, which set out treasury management activity in the first 6 months of the 2013-14 financial year.

RESOLVED THAT

The report be noted.

8. CORPORATE HEALTH AND SAFETY MANAGEMENT ANNUAL REVIEW

Nick Austin, Bi-Borough Director of Environmental Health, introduced the report, which gave a summary of health and safety activity undertaken by the Council in the previous 12 months. He said that work had been undertaken in conjunction with the Council's Risk Management service, with the aim of ensuring that the Council met its duty of care. He outlined the 3 inspections undertaken by the Health and Safety Executive, and the outcomes of those inspections.

Councillor Cartwright asked how, given the limited resource available, the service took responsibility for such a wide area. Mr. Austin said that the service did not take responsibility as such, with health and safety an everyday management responsibility, with the service providing an audit and expert advice function.

Councillor Dewhurst asked about fire safety education for Council tenants. Stephen KIRRAGE, Director of Property Service and Asset Management, said that information was included in the quarterly updates to tenants, and that it was part of the new MITIE contract. The contract included a requirement for an annual inspection of all housing stock, which would identify any additional work in a timely fashion.

In response to a question from Councillor Murphy regarding works undertaken to address fire risk by bringing doors up to code, Mr. KIRRAGE said that the Council was working to a 7 year programme, but that any unsafe doors should be replaced within the next 6-12 months.

The Chairman asked about gas certification, given the previous issues. Mel Barrett, Executive Director of Housing and Regeneration, said that the Council now took a robust approach, led by a dedicated Head of Health and Safety within Housing. He said that a new policy would be established with MITIE, and that the

historic gap in the function, caused by the split between retained functions and H & F Homes, had been closed, with the reincorporation of H & F Homes.

Councillor Murphy asked where responsibility lay for the duty of care in the relationship with Amey. Richard Buckley, Bi-Borough Head of Corporate Safety and Residential Operations, said that the Council retained a duty of care, but that any negligence by Amey would be addressed through the contract, and that liability with the Health and Safety Executive would fall on Amey in those circumstances.

In response to further questions, he confirmed that a plan was in place to manage the Linford Christie Stadium, and that works at Bagleys Lane would be carried out in the current financial year.

RESOLVED THAT

The report be noted.

9. CORPORATE ANTI FRAUD SERVICE REPORT 1 APRIL 2013 TO 30 OF SEPTEMBER 2013

Andrew Hyatt, Bi-Borough Head of Fraud, introduced the report, which set out the first 6 months of activity by the Council's Corporate Anti-Fraud Service (CAFS). He said that, subject to the report being issued, the Government announced that the launch of a single benefit fraud investigation service would go ahead in 2014-15. He said that DCLG had announced plans to offer transitional support for non-benefit fraud investigation but no detail had been announced.

Jane West, Executive Director of Finance and Corporate Governance, said that there was anxiety regarding the possible loss of powers as a result of the change; this would make the investigation of tenancy fraud more difficult.

Mr. Hyatt also outlined plans for a national tenancy fraud amnesty and work undertaken with housing associations to increase investigations of potential frauds.

Councillor Murphy asked about the shortage of homes in the borough used to quantify the value of recovered tenancies. Mr. Hyatt undertook to supply this information for 1, 2 and 3 bedroom properties.

RESOLVED THAT

The report be noted.

10. ANNUAL GOVERNANCE STATEMENT ACTION PLAN, OUTSTANDING RECOMMENDATIONS FOR EXTERNAL AUDIT AND FRAUD RESPONSE PLAN

Geoff Drake, Senior Audit Manager, introduced the report, which included the Fraud Response Plan. He said that there were 4 outstanding recommendations on that plan, 3 of which could not be implemented yet due to timing.

Councillor Murphy asked about the discrepancies in the contracts register. Mr. Drake confirmed that the Council had an unknown number of contracts which were not on the register, and an audit in Children's Service had confirmed that such contracts existed. Discussions were ongoing with departments and Corporate Procurement with a view to ensuring the register was complete.

Councillor Ivimy asked whether the identified poor record keeping that may have been to hide fraud. Mr. Drake said that while the poor record keeping was at least part of the cause of the failure to notify the centre, the audit had found no evidence indicating fraud.

The Chairman expressed surprise that contracts were not identifiable from the accounts. Jane West, Executive Director of Finance and Corporate Governance, said that the Council's current IT software did not require a cross reference to authorise payment, and did not offer sufficient management information to identify all contracts being paid out. Hitesh Jolapara, Bi-Borough Director of Finance, said that single payments were sometimes necessary, and said that the Council had made more of these historically, in agreeing care packages for children, for instance. He said that, concomitant to the introduction of managed services, the Council would be undertaking an exercise to ensure its supplier list was complete.

RESOLVED THAT

The report be noted.

11. COMBINED RISK MANAGEMENT HIGHLIGHT REPORT

Michael Sloniowski, Bi-Borough Risk Manager, introduced the report, which set out risk management activity in the period since the last meeting. He said that agreement had been reached on a Tri-Borough approach to risk management, which would create a straightforward process in use across the three boroughs. He said that while the boroughs reached different assessments of risk, they would use the same templates.

RESOLVED THAT

The report be noted.

12. INTERNAL AUDIT QUARTERLY REPORT

Geoff Drake, Senior Audit Manager, introduced the report, which set out the performance of the internal audit service in the previous quarter. He said that 7 audit reports were finalised in the period, along with 1 management letter and 2 follow ups. He said that the audit plan was 37% complete.

Councillor Cartwright expressed concern that the audit report on the Edward Woods Estate had not been formally submitted to the Committee. Mr. Drake said that all the limited assurance Internal Audit reports had been made available to Committee members in the shared online folder that continue to host these reports;

he would review additional options for providing this information to Committee members going forward.

Councillor Cartwright outlined the case as had been reported to the Council's Cabinet, and said that it represented a huge failure of project management. He said that cultural change was required, along with the introduction of a gateway system similar to that used by the Government. He said that a full post-implementation report should also be required. Mr. Drake said that the internal audit of the project had identified the failure to use the Council's project management toolkit (which had not been introduced at the time of the project's inauguration) and improved benefits management as the 2 audit recommendations.

Mel Barrett, Executive Director of Housing and Regeneration, said that Councillor Cartwright's characterisation of the project was accurate, and said that it had been misconceived and subject to mission creep thereafter, without adequate checks and balances, particularly in ensuring that changes to specification and market conditions were reflected in the business case through an iterative process. He said that members had been poorly advised by officers, within H & F Homes and once those services had been brought back in house.

He said that, while the project was historic in nature, it had already informed a number of decisions made, particularly the decision to enter into a joint venture for housing development, and the skill set the Council sought when recruiting officers who work in this area.

Stephen Kirrage, Director of Property Services and Regeneration, updated the Committee on the position with regards to the completion and handover of the finished homes from the contractor. He said that the project had had a high number of officers involved over its lifetime. He said that lessons had been learnt, particularly in ensuring that all projects had appropriate initiation documents and regular review of commercial viability.

Councillor Ivimy asked how the initial valuation had been arrived at. Mr. Barrett said it appeared from H & F Homes internal documentation that it had been validated by an estate agency, but that there had been no attempt to revisit the valuation as specifications changed.

The Committee agreed that information on limited assurance reports and any other matters of concern should be reported to the Committee.

RESOLVED THAT

The report be noted.

13. EXCLUSION OF THE PUBLIC AND PRESS

RESOLVED THAT

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 3 and 7 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.

14. PENSION FUND INVESTMENT ADVISER APPOINTMENT

RESOLVED THAT

Deloitte Total Reward and Benefits Limited be appointed to be Investment Adviser to the Pension Fund for a period of five years with the option to extend for a further two years.

15. EXEMPT MINUTES OF THE PREVIOUS MEETING

RESOLVED THAT

The exempt minutes of the meeting of the Committee held on 26th September 2013 be agreed as a true and correct record.

Meeting started: 7.03 pm
Meeting ended: 9.47 pm

Chairman

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