

# Audit, Pensions and Standards Committee Minutes

Monday 30 June 2014

## PRESENT

**Committee members:** Councillors Michael Adam, PJ Murphy, Iain Cassidy (Chair), Guy Vincent, Adam Connell, Ben Coleman and Nicholas Botterill

**Other Councillors:** Councillor Michael Cartwright

**Officers:** Craig Bowdery (Principal Committee Coordinator), Geoff Drake (Chief Internal Auditor), Jonathan Hunt (Tri-Borough Director for Treasury & Pensions), Andrew Hyatt (Head of Fraud), Francis Murphy (Head of Procurement), Alastair Sutherland (Deloitte Total Reward) and Jane West (Executive Director for Finance & Corporate Services)

## 34. MINUTES OF THE PREVIOUS MEETING

Members noted that there were a number of matters arising from the previous meeting that had not been resolved. These included:

- Minute 19: That officers supply the committee with overtime figures  
That officers supply a breakdown of administrative costs to the fund
- Minute 22: Officers to bring forward a report on admitted bodies and their position in the fund
- Minute 24: Officers to supply a list of assets identified for disposal and their income target
- Minute 26: Officers to supply the information requested regarding underpayments and what percentage the repayment of the total amount paid
- Minute 28: Officers to provide information on gas safety for leaseholders
- Minute 29: Officers to provide a full list of Children's Services/Education risks
- Minute 31: With regard to the unimplemented recommendations for the Tri-Borough Fostering Service, the Senior Audit Manager reported that four recommendations had not been implemented. Three of these were financial and would be implemented as soon as the Agresso system went live and the fourth was that a service review should be conducted. This review was currently underway.

Officers apologised for the large number of outstanding actions, which were due to a change in committee support. Officers undertook to address all outstanding actions.

**RESOLVED –**

That the minutes of the meeting held on 13<sup>th</sup> February 2014 be agreed as a correct record and signed by the Chair.

**35. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors Johnson and Loveday.

**36. DECLARATIONS OF INTEREST**

There were no declarations of interest.

**37. APPOINTMENT OF VICE CHAIR**

**RESOLVED –**

That Cllr Michael Adam be appointed Vice-Chair for the 2014/15 municipal year.

**38. PENSION FUND QUARTERLY UPDATE**

The Committee received a report from the Tri-Borough Director for Pensions and Treasury updating on the investment performance and funding level of the Pension Fund as at 31<sup>st</sup> March 2014. Officers explained that since 31<sup>st</sup> March 2013, the funding level of the Pension Fund had increased from 83% to 86%. Alastair Sutherland, Deloitte Total Reward (the Fund's investment advisor), was also present and he explained that it had been an interesting quarter with equity markets delivering positive returns while the bond markets struggled. Overall the Fund was performing well with one manager, Majedie, performing particularly strongly when measured against their benchmark.

Members noted that MFS, the Fund's manager with a remit for overseas equity, was consistently performing below its benchmark, and it was asked whether the Fund should continue with them. Mr Sutherland explained that he rated MFS highly as a research-driven manager. In his view it would be more appropriate to question whether MFS had been given the most appropriate mandate and so he would advise against leaving them. Despite being the only manager that has been below its benchmark for much of the last five years, the Committee was informed that parts of the fund performed well and the organisation remained sound. Officers explained that they would be looking at asset allocation and reviewing which managers were used.

Members asked whether the Council benchmarked the performance of the Fund against other councils. Officers reported that they had access to data for the rest of the Local Government Pension Scheme, and funding levels were roughly in line with other councils.

It was asked whether the funding level of 86% for the Fund represented a risk. Officers explained that this meant that if everyone who was part of the scheme asked for their share at the same time, only 86% of them could be paid. Therefore whilst the funding level represented a risk, it was not a significant one as this could not occur as payouts were over at least the next 60 years.

**RESOLVED –**

That the report be noted.

**39. PENSION FUNDS BUSINESS PLAN**

The Committee received a report from the Tri-Borough Director for Pensions and Treasury presenting the Tri-Borough Pension Fund business plan for 2014/15. Officers noted that since becoming a tri-borough team in 2012, they had found working to be a lot easier and more productive. Members highlighted that Cumbria council had many examples of good governance and that officers should consider whether any of them could be applied in Hammersmith & Fulham.

**RESOLVED –**

That the report be noted.

**40. LOCAL GOVERNMENT PENSION SCHEME (LGPS) CONSULTATIONS**

The Committee received a report from the Tri-Borough Director for Pensions and Treasury regarding a consultation by the Department for Communities & Local Government on the Local Government Pension Scheme (LGPS). Officers explained that the consultation advocated an increased use of Collective Investment Vehicles (CIVs), which the Council supported. However the consultation also proposed a greater use of passive investments, which officers felt should be a decision down to each council according to local circumstances.

Officers explained for the Committee that CIVs would provide a pool for funds to access investors, which would deliver savings by sharing fees. CIVs would also bring together more fund managers, which would ensure more scrutiny and stronger governance as each learned from the other. Members remarked that the consultation seemed contrary to the Government's commitment to localism and was actually more centralising in its prescription of how funds should be managed. Officers reported that the Government's support of CIVs was generally accepted by pension fund officers nationally, but the proposed guidance that passive investments should be prioritised over active ones was causing some concern.

Some members cautioned against focussing too much on reducing fees and highlighted that sometimes more dramatic results could be achieved through making more significant changes. As such, the performance outcomes were more important than the level of fees paid. Members also expressed concern regarding the level of autonomy the Council would have if it were part of a proposed London CIV, and whether it would be able to continue appointing the managers it wanted. Officers explained that London Councils was developing the London CIV on this basis with councils able to act independently within a framework. Officers

undertook to provide a full presentation on the CIV at a future meeting.

**RESOLVED –**

- i) That the report be noted; and
- ii) That a presentation on the CIV be given at a future meeting.

**41. CAPITAL E SOURCING**

The Committee received a presentation from the Head of Procurement and Westminster City Council Head of Procurement Operations on the CapitalSourcing programme. Officers explained that the system could be adjusted for each procurement, so that different cost to quality ratios could be employed depending upon the need of the specific tendering exercise. The system did not replace the need for a buyer who knew what they were doing, but it made the process simpler and more efficient with standardised processes.

Members discussed the potential to sell the system to other councils and asked what income could be generated. Officers explained that for each additional authority joining the platform, 3% of their license fees would be paid back to WCC as the lead on the framework, this in effect would result in a reduction of Tri-Borough license fees.

It was asked what measures had been taken to make the system as accessible as possible for Small and Medium Enterprises (SMEs). Officers described how the system would allow for an extended tender period if desired, and that an ongoing development group was planned that would include SME representation.

Members suggested that if the Council had invested money to make the tendering process easier for businesses, then businesses should be approached to renegotiate costs. Officers explained that the easier system should be reflected in the number and costs of bids received, and that ultimately the easier the system the more bids were likely to be received, which gave a better chance of securing value for money. .

**RESOLVED –**

That the presentation be noted.

**42. COMBINED RISK MANAGEMENT HIGHLIGHT REPORT**

The Committee received a report from the Bi-Borough Risk Manager presenting the Tri-Borough risk register. Members asked about the consistency of how risks are scored across the three councils, and officers explained that they were considering distinguishing those risks that only affected a single borough or affected one borough more than others. Members also asked for details to be provided on the measures taken by the Council to protect against cyber-terrorism and officers undertook to provide a report. Concern was expressed regarding the location of the IT servers and whether they were located in or out of London. Officers explained that many of the Council's systems were now hosted remotely across the country, which made them quite resilient to outside attacks.

Members noted that the housing department had only identified four risks, and asked whether officers were confident that this represented a thorough consideration of the department's risks. Officers explained that departments were encouraged to take ownership of their risk registers, but that there was also a longer list that could be provided.

**RESOLVED –**

- i) That the report be noted;
- ii) That a briefing on the Council's response to the risk of cyber-terrorism be presented to the next committee; and
- iii) That risk registers for the Housing and Regeneration Department be made available to members of the Audit, Pensions and Standards Committee

**43. CORPORATE ANTI FRAUD SERVICE (CAFS) ANNUAL REPORT**

The Committee received a report from the Tri-Borough Head of Fraud updating on all anti-fraud activity undertaken from 1<sup>st</sup> April 2013 to 31<sup>st</sup> March 2014. Members noted the proposal to establish a Single Fraud Investigation Service (SFIS) to investigate fraud across local authorities, HMRC and DWP. It was asked whether the delays to the implementation of the Universal Credit would cause delays to the SFIS. Officers explained that this was a recommendation of a recent Parliamentary Select Committee, but the Government appears to have decided against it. Officers undertook to provide a full report on the SFIS for the September committee meeting, but highlighted some issues of concern. These included a loss of local knowledge by investigators and a possible reduction in non-welfare benefit anti-fraud activity such as tackling sub-letting.

**RESOLVED –**

That the report be noted.

**44. OUTSTANDING RECOMMENDATIONS FOR EXTERNAL AUDIT AND FRAUD RESPONSE PLAN**

The Committee received a report from the Senior Audit Manager presenting the progress made implementing the recommendations made by the Audit Commission and the Fraud Response Plan. It was reported that all entries were now closed.

**RESOLVED –**

That the report be noted.

**45. HEAD OF INTERNAL AUDIT ANNUAL REPORT 2013/14**

The Committee received a report from the Chief Internal Auditor summarising all audit work undertaken during the 2013/14 financial year.

Members asked whether Internal Audit was adequately resourced and whether being tri-borough had meant a reduction in resources for the audit team. Officers explained that there had not been a reduction in the resource delivering audits. It was anticipated that there would be a reduction in need as services became fully integrated under tri- and bi-borough, although this may be offset against the additional resource needed in such a change environment where there are more projects and new systems that require auditing. At the present time officers were confident the team had the required resources, with additional funding being received to help implement and test the new Agresso system.

The Committee highlighted the control weaknesses identified in the Annual Governance Statement, particularly with regard to Adult Social Care. Officers reported that they were confident the department was addressing the issue and that they continued to audit the controls in place. Members suggested that the ASC department report this to the Health, Adult Social Care & Social Inclusion PAC.

Members also discussed the various assurance levels given and the use of 'partly implemented'. Officers explained that once an audit was completed, a number of recommendations were made, with a timetable for when the recommendations should be implemented by. Internal Audit then tracked the progress in implementing the recommendations and undertook a follow up once they were reported as implemented. The 'partly implemented' term referred to a situation where the recommendation had not been fully and effectively implemented as the department thought, as a result the department were aware of the additional action required and Internal Audit would track progress on those additional actions required. Members raised concerns in relation to the age of the recommendations reported as followed up and the level of partially and not implemented recommendations and asked for a report back on the current position and the importance of the recommendations still not implemented.

**RESOLVED –**

- i) That the report be noted;
- ii) That the Health, Adult Social Care & Social Inclusion PAC be invited to consider the risk management and assurance arrangements of the Tri-Borough Adult Social Care department; and
- iii) That Internal Audit report back on the position regarding follow up recommendations that were reported as not implemented

**46. INTERNAL AUDIT QUARTERLY REPORT**

The Committee received a report from the Senior Audit Manager on the internal audit activity undertaken between 1<sup>st</sup> January and 31<sup>st</sup> March 2014. Members asked whose decision it was if it was decided that an audit recommendation was not to be implemented. Officers explained that it was a management decision, with the seniority of who made that decision dependant on the recommendation's significance.

**RESOLVED –**

That the report be noted.

**47. INTERNAL AUDIT CHARTER AND STRATEGY**

The Committee received a report from the Senior Audit Manager updating the Internal Audit Charter and Strategy following a 2014 review.

**RESOLVED –**

That the report be noted.

**48. DATES OF FUTURE MEETINGS**

The following dates were agreed:

- Tuesday 16<sup>th</sup> September 2014
- Tuesday 1<sup>st</sup> December 2014
- Wednesday 11<sup>th</sup> February 2015

**49. 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.

**50. PENSION FUND CUSTODIAN APPOINTMENT**

The Committee received a report from the Tri-Borough Director for Pensions and Treasury regarding a tender process undertaken with Westminster City Council to appoint a custodian for the Pension Fund using the national LGPS framework.

**51. PENSION FUND ACTUARIAL EXTENSION**

The Committee received a report from the Tri-Borough Director for Pensions and Treasury which proposed extending the Pension Fund actuarial services contract so that it would be in line with RBKC's equivalent contract.

**52. PENSION FUND INVESTMENT STRATEGY**

The Committee received a report from the Tri-Borough Director for Pensions and Treasury regarding a review of the Pension Fund investment strategy and requesting approval for delegation to the Tri-Borough Director of Treasury to manage the cash-flow of investment portfolios.

Meeting started: 7.00 pm  
Meeting ended: 9.45 pm

Chairman .....

Contact officer:

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