

London Borough of Hammersmith & Fulham

Audit, Pensions and Standards Committee

Minutes



Tuesday 23 July 2019

PRESENT

Committee members: Councillors Iain Cassidy (Chair), Jonathan Caleb-Landy, Rebecca Harvey, PJ Murphy, Alex Karmel and Matt Thorley

Officers:

Andy Hyatt (Head of Fraud)
Mathew Dawson (Treasury and Pensions)
Phil Triggs (Director of Treasury and Pensions)
Chris Harris (Chief Accountant)
Kim Smith (Chief Executive)
Hitesh Jolapara (Strategic Director of Finance and Governance)
Emily Hill (Assistant Director of Corporate Finance)
David Hughes (Director for Audit, Fraud, Risk and Insurance)
Mike Sloniowski (Risk Manager)
David Abbott (Scrutiny Manager)

External: Andrew Smith (External Auditor from Grant Thornton)

1. **MINUTES OF THE PREVIOUS MEETINGS**

RESOLVED

The minutes of the meetings held on 12 March 2019 and 9 July 2019 were agreed as accurate records and were signed by the Chair.

2. **APOLOGIES FOR ABSENCE**

Apologies for lateness were received from Councillor Alex Karmel (who entered the meeting at 7.04pm).

3. **DECLARATIONS OF INTEREST**

There were no declarations of interest.

4. LONDON BOROUGH OF HAMMERSMITH AND FULHAM STATEMENT OF ACCOUNTS, INCLUDING PENSION FUND ACCOUNTS FOR 2018-19

NOTE: Officers tabled a sheet of errata for the report which is attached to these minutes as Appendix 1.

Hitesh Jolapara, Strategic Director of Finance and Governance, introduced the report that presented the Council's 2018/19 Statement of Accounts, including the Pension Fund Accounts and Annual Governance Statement for approval.

He noted that the accounts had been closed on two systems as the Council had migrated its finance systems from BT Agresso to the Hampshire SAP system.

Andrew Smith, External Auditor from Grant Thornton, attended to talk through the accounts and answer questions from the Committee. He highlighted the following points:

- Grant Thornton anticipated issuing an unqualified audit opinion and an unqualified 'value for money' opinion which was very positive for the Council.
- No significant risks were found during the audit.
- The transition of data from BT Agresso to Hampshire SAP was complete and there were no issues to report.
- There were no significant issues related to the Pension Fund's investments.

There was a significant finding around the Dedicated Schools Grant and the cumulative overspend of £13.6m as of 31 March 2019. The auditor had asked officers to change how this was presented in the accounts so it didn't show as a negative reserve.

Following benchmarking looking at reserve levels, H&F was found to be below average as result of the Council using reserves to fund services. The auditor recommended rebuilding reserve levels over time.

Andrew Smith drew the Committee's attention to the action plan and recommendations on page 182 of the agenda pack and noted that Grant Thornton would be bringing a proposal back to address the actions, that may incur additional fees.

[Councillor Alex Karmel entered the meeting]

Councillor Caleb-Landy noted that there had recently been stories in the press about Grant Thornton being fined by the Financial Reporting Council over audits of other organisations. He asked for the auditor to provide reassurance over the robustness of their audits for the Council.

Andrew Smith informed members that, to provide reassurance, the auditor had introduced an additional independent layer of review before they reached their conclusion. He added that every firm had been put under the spotlight. Audit fees had come down significantly over the past ten years, but the Financial Reporting Council had raised the bar for audits.

Andrew Smith noted that Grant Thornton had agreed an action plan with the Financial Reporting Council to address their concerns and they were content with the plan. They had also commissioned an independent firm to review their audit practice.

Councillor Caleb-Landy asked if the auditors had gone into primary material to make sure they lined up with the accounts. Andrew Smith said that the audit involved a sample going back to source evidence – e.g. looking at invoices from third-parties and checking the related cash transactions.

Hitesh Jolapara noted that on the ground there were Council finance teams supporting the audit process and the auditors had weekly check-ins with his team. He had noticed more enquiries and more detailed enquiries from the auditors than in previous years.

Councillor PJ Murphy asked if the reserve level benchmarking referred to page 176 of the pack were absolute levels – or did they take into account the relative size of the Council. Andrew Smith said they were absolute levels but he believed the reserve levels would still be below average taking into account the relative size of the authority. Councillor Murphy said this was something he would like the Finance Policy and Accountability Committee to look at.

ACTION: David Abbott

Councillor PJ Murphy welcomed the information on the gender distribution of the workforce but asked that it be broken down further in future reports. He wanted to see the distribution by department and seniority. Hitesh Jolapara said that information could be added – the supporting information was there to do it.

ACTION: Hitesh Jolapara

RESOLVED

1. The Committee noted the content of the external auditor's 'Audit Findings Report' (ISA260), including the auditor's findings, recommendations and the Council's response to those recommendations (Appendix 2)
2. The Committee approved the 2018/19 Annual Governance Statement which is included in the Statement of Accounts (Appendix 1).
3. The Committee approved the 2018/19 management representation letter (Appendix 3).
4. The Committee approved the Statement of Accounts for 2018/19, including the Pension Fund Accounts (Appendix 1).
5. The Committee approved the Pension Fund Annual Report 2018/19 (Appendix 4).
6. The Committee noted that the accounts remained 'unaudited' until final sign-off by the external auditor and delegated to the Chair of the Audit, Pensions and Standard's Committee, in consultation with the Strategic Director, Finance and Governance, the authority to approve any further adjustments required as part of the completion of audit work.

Government Consultation on Pension Fund Valuation Period

Councillor PJ Murphy asked officers for an update on the Government's consultation on moving from a triennial valuation to a quadrennial valuation for the pension fund.

Phil Triggs explained that the Government wanted to move to a quadrennial valuation period to align the Local Government Pensions Scheme with other public sector pension schemes. However, officers felt four years was too long as contribution rates quickly became out of date and funding levels could change quickly. Officers anticipate a four year period would mean Councils having to do an interim valuation after two years which would increase costs. Councillors agreed with officers – three years was the right balance.

The Committee recommended that valuation period should remain as three years.

5. TREASURY OUTTURN REPORT 2018-19

Phil Triggs, Director of Treasury and Pensions, presented the Council's annual Treasury Management Outturn report for 2018/19 and noted it was a regulatory requirement for the outturn report to be presented to the Council by the 30th of September each year. He highlighted the following key points:

- Total borrowing at year end (March 2019) was £212.84m with an average interest rate of 4.77% (as compared with £217.41m and 4.89% last year).
- Total cash invested was £326.4m.
- The strategy for 2018-19 was to keep investments short-term and high quality – a prudent approach with reduced risk but a lower return.
- There was no new borrowing over the period. The Council had used its own cash reserves to fund borrowing internally.

Councillor PJ Murphy, referencing 4.8 of the report, noted that the Council had paid off £3.8m over the last year – and asked if the strategy was now to pay down loans as they matured. Phil Triggs said a number of previous loans were taken out at quite high rates and so as they were repaid the Council had the opportunity to refinance those loans at much lower rates of around 2 percent, bringing repayment costs down. Recently the Council had managed to contain borrowing rather than take out new loans.

Councillor Murphy asked which loans were maturing this year. Phil Triggs said loans of £10m would be maturing in the current year, rising to £12m the following year.

Councillor Alex Karmel asked if it was possible to have a breakdown of loan maturity dates and the interest being paid on them.

ACTION: Phil Triggs

Councillor Matt Thorley confirmed with officers that the loans were all maturity loans then asked what the arrangement fee was. Phil Triggs noted it was three and a half basis points (0.035%).

Hitesh Jolapara added that when making decisions about loans and repayments – the Council took a broader view – considering the best time to borrow and how to spread risk.

Councillor Matt Thorley noted that in 4.12 there was mention of the HRA borrowing from the general fund and asked if that would mean charging interest. Phil Triggs confirmed that interest would have to be charged at the commercial rate. A policy would be finalised and included in next year's Treasury Management Strategy.

Councillor Matt Thorley asked for officers' thoughts about widening the Council's investment parameters. Phil Triggs noted that the Council had looked at asset backed securities, which could produce a return of 35 basis points on top of the current yield, but the Committee chose not to take that step due to the uncertain political and financial climate.

RESOLVED

The Committee noted the report.

6. CORPORATE ANTI-FRAUD SERVICE ANNUAL REPORT 2018-19

Andy Hyatt, Head of Fraud, presented the report which provided an account of fraud related activity undertaken by the Corporate Anti-Fraud Service from 1 April 2018 to 31 March 2019. He drew the Committee's attention to the table at 1.6 of the report listing 146 positive case outcomes for the service. Cases involving tenancy fraud resulted in the Council getting 39 properties back to be used for social housing.

The Chair recommended that Councillors be notified of the anti-fraud work going on in their wards.

ACTION: Andy Hyatt

The Chair asked what had caused the large drop in proven 'Right to Buy' fraud (52 in 2017/18 to 16 in 2018/19). Andy Hyatt said that reflected a lower numbers of applications coming through. Even with the discount many properties were prohibitively expensive.

Councillor Jonathan Caleb-Landy asked why tenancy fraud had increased in 2018/19. Andy Hyatt said the levels varied from year to year – the figures reflected the referrals that came in to the team.

Councillor Caleb-Landy said it was difficult to see broader trends. Andy Hyatt explained that towards the end of the financial year there would be a national data matching exercise as part of the National Fraud Initiative – so officers would be able to present a fuller picture around March.

Councillor Rebecca Harvey asked what the acronym 'NHHD' stood for. Officers explained that it stood for Notting Hill Housing Group – the Council had an agreement with them where repossessions (or an equivalent property) came back to the Council.

Councillor Alex Karmel noted that some departments didn't seem to be informing the Corporate Anti-Fraud team of potential areas of significant recovery (making reference to some large illegal HMOs that had been in the press). He felt the Council needed to tighten up its internal metrics so the team was made aware of these properties sooner so a judgement could be made.

Andy Hyatt said the team had considered hiring another financial investigator but it wasn't deemed viable at present. Councillor Karmel urged the team to keep it under review.

Councillor PJ Murphy asked if the Council ever recovered the money made from illegal sub-letting. Andy Hyatt said there were two routes to recovery, depending on the case the Council could use the powers in the Proceeds of Crime Act or 'unlawful profit orders' from the Preventions of Social Housing Fraud Act 2013.

Councillor Murphy asked officers to let tenants associations know of any housing and tenancy fraud successes. It would be good for them to know and might encourage more people to come forward. He then asked if there was anything the Council could do to encourage reporting – e.g. offering some benefit for the housing association. Andy Hyatt said he would speak to the housing department about that. He added that an investigator from the team held a surgery once a week on housing estates.

ACTION: Andy Hyatt

RESOLVED

The Committee noted the report.

7. RISK MANAGEMENT UPDATE

Mike Sloniowski, Risk Manager, presented the report that provided an update on risk management within the Council and the revised sovereign strategy and corporate risk register.

The Chair asked officers to pick out the key issues. Mike Sloniowski said the biggest issue on the horizon was the potential for a 'no deal' Brexit – due to the change in Government that scenario had become more likely in October. However, the Council had robust resilience plans in place and officers were confident that the Council had a lot of support from services, and from its contractor base. The other major area of risk was the ongoing reduction of the Government's funding to local government.

Councillor PJ Murphy recommended the Committee look in more detail at the Council's major regeneration schemes – i.e. West King Street and White City.

ACTION: Mike Sloniowski

Officers noted that cyber risks were also high-risk and would be coming to the next meeting. The Committee asked that the report included the Council's social media and front facing IT / communications technology.

ACTION: Mike Sloniowski

RESOLVED

The Committee noted the contents of the report, the updated sovereign strategy, and the corporate risk register.

8. HEAD OF INTERNAL AUDIT ANNUAL REPORT 2018-19

David Hughes, Director of Audit, Fraud, Risk and Insurance, presented the report that summarised the work of Internal Audit in 2018/19 and provided the opinion of the Director on the adequacy and effectiveness of the Council's framework of governance, risk management and control. He noted that there had been continuing improvement in the number of positive audits (88% positive) and a very high rate of implementation – it was a testament to the Chief Executive's robust approach to audit and assurance and the Committee holding officers to account. Kim Smith, Chief Executive, added that a lot of the improvement coincided with David Hughes' leadership as Director of Audit, Fraud, Risk and Insurance and thanked him for his hard work.

The Chair asked what further improvements could be made. David Hughes said he was working on getting the message out to all managers and services.

Councillor PJ Murphy noted that, having been on the Committee in previous years, coming back he had seen a 'step change' (illustrated by the chart under 4.6 of the report).

RESOLVED

The Committee noted the report.

9. LIMITED ASSURANCE REPORT - SECTION 106 AGREEMENTS

David Hughes introduced the final internal audit report on Section 106 Agreements. He noted that officers had addressed all of the issues raised.

Joanne Woodward, Chief Planning Officer, presented the report and made the following points:

- In response to concerns about a lack of corporate oversight officers had introduced a monthly board that reviewed all bids for draw down. There was an agreed protocol so all officers knew what's required.
- A lot of work had been done on financial reconciliation and there was now a shared database with finance officers, giving greater transparency.
- Planning had been through a restructure and it was now clearer who was responsible for managing the programme.
- Officers had been the Council's public Finance, Commercial Revenue and Contracts Policy and Accountability Committee several times to give an overview of the programme.

Councillor Alex Karmel noted that Section 106 Agreements were becoming less important with the introduction of the Community Infrastructure Levy and asked for assurance that the Council had the same processes for both. Joanne Woodward confirmed that the same processes and governance were in place for both.

Councillor Jonathan Caleb-Landy noted the risk around non-financial obligations and a lack of monitoring. He asked if there was any time limit on older obligations – could the Council still go back to developers and claim them? Joanne Woodward said there was no time limit. Officers had been issuing more demand notices where payments had been missed and could go back and seek restitution where there had been underpayments.

Councillor Alex Karmel asked if these processes covered Section 278 agreements. Joanne Woodward said they were separately monitored by the Highways department.

David Hughes informed members that the recommendations were on track to be completed by November. Following that, officers would carry out follow-up work and would report back to the Committee at the end of year to give assurance.

Councillor PJ Murphy noted that the Finance, Commercial Revenue and Contracts Policy and Accountability Committee had been looking at Section 106 Agreements and were now much more satisfied with the arrangements. He requested a breakdown of agreements split between financial and non-financial contributions.

ACTION: Joanne Woodward

10. DATES OF FUTURE MEETINGS

Future meetings were scheduled for:

- 17 Sep 2019
- 9 Dec 2019
- 11 Mar 2020

Meeting started: 7.00 pm
Meeting ended: 8.40 pm

Chair

Contact officer David Abbott
Scrutiny Manager
Governance and Scrutiny
☎: 020 8753 2063
E-mail: david.abbott@lbhf.gov.uk