

Audit, Pensions and Standards Committee Minutes

Thursday 26 September 2013

PRESENT

Committee members: Councillors Michael Adam (Chairman), Charlie Dewhurst, Robert Iggulden, Michael Cartwright and Lucy Ivimy

Co-opted Member: Eugenie White

P-Solve: John Conroy and Nikhil Aggarwal

KPMG Audit: Mike McDonagh and Samantha Maloney

Officers: Jane West (Executive Director of Finance and Corporate Governance), Hitesh Jolapara (Bi Borough Director of Finance), Geoff Drake (Chief Internal Auditor), Moyra McGarvey (BiBorough Director of Audit), Michael Sloniowski (BiBorough Risk Manager), Jonathan Hunt (Tri-Borough Director of Pensions and Treasury), Christopher Harris (Head of Corporate Accountancy), Nicola Webb (TriBorough Pensions Officer), Andrew Hyatt (BiBorough Head of Fraud) and Owen Rees (Committee Coordinator).

90. MINUTES OF THE PREVIOUS MEETING

Councillor Iggulden and Councillor Cartwright asked about the information requested regarding Edward Woods Estate. Tasnim Showkat, Bi-Borough Director of Law, said that she would be writing to Councillor Cartwright in response to the questions he had posed. Officers would report on the reasons for the delayed Cabinet decision in due course.

RESOLVED THAT

The minutes of the meeting held on 27 June 2013 be agreed as a true and correct record subject to Eugenie White being shown as present.

91. APOLOGIES FOR ABSENCE

There were apologies from Councillor PJ Murphy.

92. DECLARATIONS OF INTEREST

There were none.

93. LONDON BOROUGH OF HAMMERSMITH AND FULHAM STATEMENT OF ACCOUNTS, INCLUDING PENSION FUND FOR 2012/13

Hitesh Jolapara, Bi-Borough Director of Finance, introduced the accounts for 2012-13. He said that the auditors had found only 3 errors, all presentational in a document that runs to well over 100 pages. He said that there had been an underspend of 11 million on the General Fund, which had been allocated to various reserves, while the balance sheet had been substantially stable. He also outlined the position in the Pension Fund, and in relation to the audit of grants.

Mike McDonagh, Partner, KPMG and Tri-Borough partner, said that he had received 2 objections from members of the public to the Council's main accounts shortly before the finale date. He said that he would take time to investigate them, and form a view on their materiality; this would need to be concluded before the accounts could be certified. He said that his responsibilities were similar to those held by the District Auditor, in relation to the Value For Money judgement as well as the accounts.

He drew attention to the presentation errors on page 132, to the critical accounting matters on page 135, to the concerns set out on page 136 with regards to the size of the accounts, and to the unqualified opinion on the Pension Fund. He said that he considered the Committee a good example of members engaging with and challenging the Council's finances and control environment.

Councillor Dewhirst asked about the salaries shown on page 82, and asked whether the rise in the number paid over were due to new roles created under Tri-Borough. Jane West, Executive Director of Finance and Corporate Governance, said that this was a result of decisions on pay made in schools, which were out of the Council's control, and no increase had been given as a result of Tri-Borough. Eugenie White asked about the reduction in pension contributions. Ms. West said that the deficit recovery element of pension payments was no longer accounted for as a percentage of salary, but as cash, due to the reduction in pension fund members.

The Chairman asked about the debts owed from other local authorities. Mr Harris said that this was largely Tri-Borough in nature, owing to recharging, and Mr McDonagh said that the accounts looked at a specific point in time. The Chairman also asked about the valuation of the Pension Fund. Mr. Hunt said that the actuary and the accounts employed different measures. .

RESOLVED THAT

- (i) The content of the Auditor's Report to those Charged with Governance (ISA260s) stating that the accounts will receive an unqualified opinion, are free from material misstatements, that the Council has an adequate internal control environment and has made proper arrangements to

secure economy, efficiency and effectiveness in the use of resources, be noted.

- (ii) The Council's response to the Reports to those Charged with Governance (ISA260s) be noted
- (iii) That the management representation letter be approved.
- (iv) That the Statement of Accounts for 2012/13 be approved.

94. ANNUAL GOVERNANCE STATEMENT

Geoff Drake, Chief Internal Auditor, introduced the report, which set out the Annual Governance Statement. He said that page 168 identified areas of weakness identified. He said that areas identified for strengthening included risk management within the Council's supply chain identifying key contractors and sub-contractors, the maintenance of the contracts register and the health and safety assessments made by contractors.

Councillor Cartwright noted that the Statement referred to training for Councillors. He said that he did not believe the Council offered members a wide variety of training, in particular in relation to its regulatory Committees. Jane West noted that the Committee had been offered training on its different areas of work, and the Chairman said that a number of Pensions conferences were free to attend. Tasnim Shawkat, Bi-Borough Director of Law, said that officers could offer bespoke training to members who wanted it, given the constraints on external suppliers.

RESOLVED THAT

- (i) The 2012 – 2013 Annual Governance Statement be approved, and that;
- (ii) The Committee monitor and track an agreed management action plan to address areas of control weaknesses and thereby ensure continuous improvement of the system of internal control.

95. ANNUAL REVIEW OF THE CODE OF CONDUCT AND ARRANGEMENTS FOR DEALING WITH COMPLAINTS AGAINST MEMBERS AND CO-OPTED MEMBERS

Tasnim Shawkat, Bi-Borough Director of Law, presented the report, which updated on the operation of the Council's Standards regime since its implementation. She said that there had been 2 complaints, 1 of which was withdrawn and the other not upheld, after discussions between the monitoring officer and independent person. She drew the Committee's attention to the proposed minor changes to the Members' Code of Conduct, and the proposed arrangements in relation to dispensations, including the Council's own role. She said that the experience of Councils, where serious breaches had occurred, was that sanctions were much more difficult to apply under the new legislation.

Councillor Dewhirst asked about the confidentiality of complaints. Ms. Shawkat said that the Monitoring Officer had the ability to determine whether, after the initial investigation, the complaint should be closed. If a Sub-Committee to hear a complaint was necessary, the hearing would be held in public.

RESOLVED THAT

- (i) The proposed changes to the “Arrangements for dealing with complaints alleging a breach of the Members’ Code of Conduct” set out in paragraph 5.6 and Appendix 1, be recommended to the Council for approval, and;
- (ii) That Council be recommended to amend to the Committee’s terms of reference to include “ To consider any applications for dispensations from Councillors and co-opted members to allow them to participate in decisions”, and;
- (iii) That Council is also requested to note that in the event of an application being received a three member Audit, Pensions and Standards (Dispensation) Sub Committee would be set up to consider the request.
- (iv) That the draft guidance for applications for dispensations attached at Appendix 2 of the report, be approved.

96. PENSION VALUE AND INVESTMENT PERFORMANCE

Nikhil Agarwal, P-Solve, presented the quarter 2 update on the position of the fund. He said that the fund had seen strong returns in April and May, with markets rising due to looser monetary policy in Japan. This was followed by a correction at the end of May, following the Federal Reserve’s announcement that it was considering “tapering” its programme of bond purchases. However, the latter had seen the price of government bonds fall, with a corresponding reduction in liabilities for the fund, and a likely improvement in funding levels over the quarter. In quarter 3, he said that July had seen markets again rise. He said this reflected the recent tendency for the markets to follow the news rather than fundamentals.

Councillor Ivimy asked whether the fund still held a high proportion of gilts. John Conroy, P-Solve, said that the strategic allocation to bonds remained unchanged. Within the two Dynamic Asset Allocation mandates, which offered their managers greater flexibility, both Ruffer and Barings now held a greater proportion of on-risk assets, with each holding around 50% in equities.

Eugenie White said that it was difficult to ascertain whether the Legal and General mandate was performing well. Jonathan Hunt, Tri-Borough Director of Treasury and Pensions, said that the actuary had offered to produce a quarterly update for the Committee at a cost of £1000 per quarter, which would show the fund’s valuation and allow it to gauge performance against liabilities.

Councillor Ivimy asked that officers reproduce the graph on page 247 of the agenda showing the value in real terms.

RESOLVED THAT

(i) The report be noted.

(ii) The actuary be requested to produce a quarterly update on the value of the fund.

97. PENSION FUND CASHFLOW POSITION

Jonathan Hunt, Tri-Borough Director of Treasury and Pensions, introduced the report, which set out proposals for resolving issues with the Fund's cashflow. He said that the proposals was to use the proceeds from dividends to close the cashflow gap, without any sales of assets required; he added that the Council's position was common amongst local authority pension funds. The Chairman noted that the requirement should be considered in the asset allocation review that would follow the actuarial valuation.

RESOLVED THAT

(i) The Committee agree £5m be withdrawn from the Majedie UK equity portfolio in October 2013 to cover the expected overdraft.

(ii) That the Committee delegate to the Executive Director of Finance and Corporate Governance, in consultation with the Chair of the Audit, Pensions and Standards Committee, the decision about how much, when and from which portfolio cash be withdrawn during the remainder of 2013/14. The decision is to be made on the basis that the cash required is withdrawn from the portfolio with the highest overweight position compared to target at the time of the requirement for withdrawal.

98. ACTUARIAL VALUATION UPDATE

Jane West, Executive Director of Finance and Corporate Governance, said that she had met with the actuary earlier in the week, and had reviewed their draft report. She said that the actuary had found that the funding level had improved, with a number of factors having contributed to this, besides the fund's strong investment performance. She said that further work would be done on the report before it was presented to the next meeting of the Committee.

Officers explained that the contribution rate had previously included the deficit recovery element, which had since been expressed as cash and maintained despite the reduction in pension fund members. The contribution rate relating to members was unlikely to alter.

99. CALL FOR EVIDENCE ON THE FUTURE STRUCTURE OF THE LOCAL GOVERNMENT PENSION SCHEME AND COLLECTIVE INVESTMENT VEHICLE

Jonathan Hunt, Tri-Borough Director of Treasury and Pensions, introduced the report which set out a proposed response to the DCLG consultation on the LGPS and requested permission to participate in the set-up of a Collective Investment Vehicle with other London Boroughs. The DCLG sought responses on a proposed reduction of the number of local authority Pension Funds. He said that officers were concerned with two aspects of the proposal: firstly, the removal of control over the Pension Fund from local control, and secondly, the limitations that larger funds faced in selecting investments. The Chairman and John Conroy, P-Solve, echoed concerns regarding investment selection.

Eugenie White said that a study of the performance of Dutch pension funds had showed that aggregation significantly reduced the costs of arising from administration and management, but that the aspiration to increase the investment made by funds in infrastructure should not be linked to a reduction of funds, when a lack of completed projects was at issue.

RESOLVED THAT

- (i) That the Committee support the production of a Tri-Borough response to the call for evidence on the future structure of the LGPS based on the key themes set out in this report.
- (ii) That the Committee give formal support to the principle of a Collective Investment Vehicle for the Local Government Pension Scheme, subject to the receipt of further details of the operation, and agree to commit up to a maximum of £25,000 to the start up costs of the initiative.

100. PENSION FUND ANNUAL REPORT 2012/13 AND COMMUNICATION POLICY STATEMENT

Jonathan Hunt, Tri-Borough Director of Treasury and Pensions, introduced the report which set out the Annual Report for 2012/13 and Communication Policy. He said that a summary could be found on pages 263 and 264.

Councillor Iggulden asked about the issues identified in relation to admitted bodies. Mr. Hunt said that the issue was in relation to the liabilities that had been transferred to academies who had members in the Pension Fund (where support staff had transferred, for instance), and who would bear responsibility for those liabilities in the advent of an academy becoming insolvent. He said that the Department for Education had guaranteed the liabilities, with a caveat that the guarantee could be withdrawn. Mr. Hunt said that admitted bodies were those with staff with pension rights transferred under TUPE, and that fund members must continue to work for the Council to remain part of the fund.

RESOLVED THAT

The report be agreed, subject to the insertion of the final accounts.

101. P-SOLVE

The Chairman noted that P-Solve were not part of the framework agreement through which the Council would appoint its next Pension Investment Adviser. He thanked P-Solve for their work; he said that the relative performance of the fund was testament to the quality of their work.

RESOLVED THAT

A vote of thanks for P-Solve be recorded.

102. TREASURY REPORT 2012/13 OUTTURN

Jonathan Hunt, Tri-Borough Director of Treasury and Pensions, introduced the report, which set out Treasury Management activity in 2012-13.

Councillor Iggulden asked why the Council was holding larger than usual quantities of cash. Mr. Hunt said that it had been unable to match the proceeds of all asset disposals with expiring debt (or with debt that could be paid off early at economical rates). It was also the case that, as in S106 receipts, the cash was allocated to future spend.

Councillor Ivimy asked about the low rate of return achieved. Mr. Hunt said that his team were looking to make larger returns without significantly increasing risks, though changing the rules on counterparties to allow larger holdings, and the purchase of assets such as gilts and T-Bills through money market funds.

RESOLVED THAT

The report be noted.

103. COMBINED RISK MANAGEMENT HIGHLIGHT REPORT

Michael Sloniowski, BiBorough Risk Manager, introduced the report, which set out risk management activity during the period. He said that the report included case studies showing risk management in the Tri-Borough programme, noting the risks associated with significant change. He set out the structure of risks as they related to service departments within the programme, noting that the boroughs were moving to a consistent methodology with refined simplified reporting.

Councillor Iggulden asked about the risks relating to trade waste and the Western Riverside Waste Authority. Mr Sloniowski said that these related to income and throughput respectively.

RESOLVED THAT

The report be noted.

104. INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 APRIL TO 30 JUNE 2013

Geoff Drake, Chief Internal Auditor, introduced the report, which set out the internal audit work undertaken in the quarter to 30 June 2013. He summarised the position, saying that 3 limited assurance reports had been issued in the period, with all recommendations either implemented or scheduled for implementation; he said that 3 recommendations were now outstanding from 2012-13, due to issues relating to the timeframe.

With regards to Internal Audit performance , he said that 15% of the plan had been completed with 21% of the days worked; he considered the performance reasonable given the timing of the report and the changes made to the previous plan to provide increased focus on IT.

RESOLVED THAT

The report be noted.

105. EXCLUSION OF THE PUBLIC AND PRESS

RESOLVED THAT

The Committee agreed 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 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.

106. FRAUD RESPONSE ACTION PLAN

RESOLVED THAT

The report be noted.

107. PARAMETERS FOR DECIDING ON PROSECUTIONS

RESOLVED THAT

The report be noted.

108. STAFF DISCRETIONARY POWERS

RESOLVED THAT

The report be noted.

Meeting started: 7.00 pm
Meeting ended: 9.50 pm

Chairman

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