

# Audit, Pensions and Standards Committee Minutes

Thursday 13 February 2014

## **PRESENT**

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

**Other Councillors:**

**Officers:**

## **16. MINUTES OF THE PREVIOUS MEETING**

Eugenie White asked whether the Committee had had a response on its request for information on the relative performance of Goldman Sachs under item and on the waiting list under item. Officers undertook to supply these to the Committee.

The Chairman asked officers to coordinate a list of matters arising for the next meeting to ensure all questions were answered.

## **RESOLVED THAT**

The minutes of the meeting on the 5<sup>th</sup> December 2013 be agreed as a true and correct record.

## **17. APOLOGIES FOR ABSENCE**

There were none.

## **18. DECLARATIONS OF INTEREST**

There were none.

## **19. CAPITA PRESENTATION**

Sarah Wilson, Capita, gave a presentation on Capita's work as pensions administrator. The presentation covered the changes to the scheme that would occur from April 2014, and how these would affect the fund's members.

Councillor Cartwright asked why the changes had been identified as costing the Council more. Ms Wilson said that this comment had been made in relation to the potential costs accruing from the pensionability of overtime payments under the new scheme, rather than the scheme as a whole. Members asked for a figure for overtime in cash terms and as a percentage of payroll

The Committee requested information on the total costs for the administration of the fund, not including monies spent on investment management, broken down between the Capita and in-house elements. Officers confirmed that all administrative costs were charged to the fund.

## **RESOLVED THAT**

- (i) The presentation be noted and Ms Wilson be thanked for attending, and;
- (ii) That officers supply the Committee with overtime figures as requested, and;
- (iii) That officers supply the Committee with a breakdown of administrative costs for the fund.

## **20. PENSION VALUE AND INVESTMENT PERFORMANCE**

Alistair Sutherland, Deloitte Total Reward, introduced the report, which updated the Committee on the Fund's performance in the quarter to 31 December 2013. He said that the previous year had as a whole been good for risk assets, but that there had been a fall in the value of UK equities at the end of the year; in light of this, Majedie's performance was particularly laudable.

At the Committee's request, he gave his view on the performance of each of the fund's managers. He said that Majedie were performing well, but consideration should be given to redistributing their gains; MFS were investing on a long timeframe, and performing well in that context. He said that Barings and Ruffer both had a high degree of equities exposure, and might be more closely correlated in their holdings than would be ideal: he believed that a balance fund might perform the role of the dynamic asset allocation mandates as well, and at a lower fee. Legal and General were a sound manager, but the current mandate was overly complex and generating higher than necessary fees. The Goldman Sachs mandate was managed well, but he had found Goldman Sachs to have an over-optimistic assessment of risk in past dealings.

With regards to the overall fund strategy, he said that 90% of the fund's holdings were in liquid assets, and the fund might benefit from shifting a percentage into illiquid assets, which currently offered a premium. The Chairman said that this was in relation to the Matching Fund and growth assets.

Councillors Ivimy and Iggulden expressed concern that top-slicing the Majedie allocation would be removing funds from an effective manager to give to a less effective one, and would imply that faith in Majedie was limited.

Eugenie White noted that the aim of employing Dynamic Asset Allocation mandates had been to redress the inability of the Committee to move quickly in assessing market conditions, and any change would need to reflect that position.

In relation to illiquid assets, she noted that timing was crucial, as had been demonstrated in emerging markets. Mr Sutherland said that the evidence that Dynamic Asset Allocation had outperformed balance funds was negligible, though certain managers, including Ruffer, brought different skills.

Councillor Murphy asked what the relationship between Majedie Asset Management and Majedie Trust was. Mr Sutherland said that the management of MAM was buying out, on pre-agreed terms, ownership from Majedie Trust, and was already bigger than Majedie Trust. He said that two possible issues were that MAM would now manage the Trust's money and that the owners of MAM would need to sell the company to fully realise their gains.

The Chairman said that he aimed to complete the asset allocation review in short order, and that this might necessitate a special meeting of the Committee.

RESOLVED THAT

The report be noted.

## **21. PENSION FUND - MANAGER BRIEFINGS**

The Chairman said that he had found the first two fund manager briefings very useful, and had been reassured about the way in which Majedie and MFS were carrying out their mandate. Eugenie White noted that the long-term strategy of MFS was sensible, but that it might struggle in the short term.

RESOLVED THAT

The report be noted.

## **22. PENSION FUND - FUNDING STRATEGY STATEMENT**

Nicola Webb, Tri-Borough Pensions Officer, introduced the report, which set out the Funding Strategy Statement for the Fund, as required by the regulations of the LGPS.

Eugenie White asked what protection the fund enjoyed if an admitted body went into liquidation. Ms Webb said that contractors were now obliged to post a bond on entering the fund, and that an assessment was made of their respective deficits.

The Chairman asked officers to bring forward a report on admitted bodies and their respective positions in the fund, and the position of the Council in relation to them, to a future meeting of the Committee.

RESOLVED THAT

- (I) That the Funding Strategy Statement be agreed, and that;
- (II) Officers bring forward a report on admitted bodies and their position in the fund to a future meeting.

## **23. CUSTODIAN TENDER EXERCISE**

Jonathan Hunt, Tri-Borough Director of Treasury and Pensions, introduced the report, which proposed that the Council tender, along with Westminster City Council, for a new custodian. He said that the price of the current contract appeared high and that he proposed that the Council make use of the framework established by the National LGPS Frameworks.

Councillor Murphy asked if the Council could achieve further savings by working with other authorities. Mr Hunt said that the use of the framework contract meant that the Council would effectively be doing so, and there was a gain share element to the framework. He said that, based on the figure currently paid by the Royal Borough of Kensington and Chelsea, the Council could hope to achieve a saving of £30-40,000 for the Fund.

The Chairman asked that members be involved in the procurement where possible. Mr Hunt said that the work of the custodian was technical in nature, and that the framework contract allowed only for a clarification meeting; as such, there might not be an opportunity for members to be involved until a decision report was brought to the June meeting of the Committee, but he would bear the request in mind.

#### **RESOLVED THAT**

That the plan to tender for a custodian jointly with Westminster City Council using the National LGPS framework for custodian services be approved.

#### **24. TREASURY MANAGEMENT STRATEGY 2014-15**

Jonathan Hunt, Tri-Borough Director of Treasury and Pensions, introduced the report, which set out the Treasury Management Strategy 2014-15. The Strategy had been agreed by Cabinet, and would be submitted to Council for ratification, subject to any comment from the Committee. He said that the Strategy sought to diversify the places in which the Council could invest its cash, which were identified in the report.

Councillor Iggulden asked for clarification on the debt of Network Rail. Mr Hunt said that the Government had provided a guarantee for Network Rail debt, but that it had been issued at a slightly higher rate as it had not been formally classified as Government debt. In response to a question from the Chairman, Mr Hunt said that the Government would not be able to repudiate the debt without changing the law of guarantee whilst Councillor Iggulden noted that the Debt Office had accepted it as Government debt.

Eugenie White asked how the approach compared with the other Councils within Tri-Borough. Mr Hunt said that the Council showed similar appetite for risk to Westminster, with RBKC more conservative.

Councillor Iggulden asked which UK banks were currently used. Mr Hunt said that Lloyds, RBS, Barclays and HSBC were those in use, and had been identified by

either size and market position or perceived Government support. He said that Svenske Handlebanken and Deutsche Bank, were suitable foreign banks either due to their approach and ethos (reflected in their credit rating) as well as the German banking guarantee (in the case of Deutsche bank). The Chairman suggested that SE Bank had been in use elsewhere.

Councillor Murphy asked for more information on the asset sales identified on page 74.

#### **RESOLVED THAT**

- (i) The report be noted, and that;
- (ii) Officers be requested to supply the Committee with a list of assets identified for disposal, and the income target associated with them.

#### **25. CERTIFICATION OF 2012/13 STATEMENT OF ACCOUNTS AND ANNUAL AUDIT LETTER**

Andy Sayers, KPMG, introduced the report, noting that it had been issued some months before. It contained the letter setting out the findings of the previous year's audit, and confirmed the certification of the accounts.

In response to a question from the Chairman, Christopher Harris, Head of Corporate Accountancy, confirmed that the 2 recommendations were in relation to the Asset Register, which was being implemented as part of Managed Services, and to treasury management, where the auditor had recommended the removal of 1 process.

Samantha Maloney, Audit Manager, KPMG, confirmed that the objections to the accounts had been assessed as non-material, and the certificate had been signed in December.

#### **RESOLVED THAT**

The report be noted.

#### **26. GRANTS REPORT 2012-13**

Andy Sayers, KPMG, introduced the report, which set out the results of KPMG's audit of the Council's 2012-13 grant claims. He said that the auditor had been able to give an unqualified opinion on 3 of the 4 grant claims, but that the fourth, in relation to Housing Benefit, had required an adjustment. He said this had been a result of incorrect classification of tenancy types, with sampling suggesting that the error had been present in approximately 10% of cases. He added that it was a common area of failing, though confirmed that the percentage was higher than other London boroughs.

Jane West, Executive Director of Finance and Corporate Governance, said that she would supply the Committee with trend data for the claim, which showed consistent improvement.

Councillor Cartwright said that the department frequently made errors in dealing with residents, and asked if there was a clawback element. Ms West said that the errors in question did not result in a need to recover funds from residents.

Councillor Murphy asked whether the Council automatically went back to residents it had underpaid. Ms West said that she would check this and respond to the Committee.

Councillor Iggulden asked how much the repayment related in terms of the total paid. Ms West said that she would check this and respond to the Committee.

#### **RESOLVED THAT**

- (i) The report be noted, and that;
- (ii) Officers be requested to respond to the Committee on underpayment and the percentage repaid of the total paid.

#### **27. 2013/14 AUDIT OPINION PLAN**

Andy Sayers, KPMG, introduced the report, which set out the process for the audit of the 2013-14 accounts. He identified key areas including management overrides, property plant and equipment, pensions costs and liabilities, fraud and value for money.

Councillor Ivimy suggested that the auditor focus on Housing Benefit calculation, while Councillor Cartwright asked whether the auditor would look at housing stock in light of the recent fraud in Southwark. Mr Sayers said that the principal focus would be the financial statements, with the latter an area for counter-fraud investigation. He said that external audit did examine the work of internal audit.

Eugenie White asked how the plan differed between London authorities. Mr Sayers said that they were very similar.

#### **RESOLVED THAT**

The report be noted.

#### **28. ANNUAL GOVERNANCE STATEMENT ACTION PLAN, OUTSTANDING RECOMMENDATIONS FOR EXTERNAL AUDIT AND FRAUD RESPONSE PLAN**

Geoff Drake, Senior Audit Manager, introduced the report, which set out progress against the Annual Governance Statement Action Plan, and Outstanding recommendations from the External Audit and the Fraud Response Plan.

He said that there were three outstanding entries on the AGS Action Plan, both of which were not yet due for implementation, and 2 on the Fraud Response Plan, both of which could not be implemented until there had been an outcome in the court case.

The Chairman asked what progress had been made on ensuring that the contracts database was accurate. Mr Drake said that the database was being collated, and would be audited in quarter 4, but that the number of unlisted contracts was still unknown. Jane West, Executive Director of Finance and Corporate Governance, said that the register had just gone live, and the team responsible had undertaken a cross reference with the list of spend over £500. She said that the project was ongoing, and would include all contracts down to £5,000. She noted that smaller sums would still require a purchase order to be paid. She suggested that the Procurement team report to the next meeting on their progress

Councillor Dewhirst asked if there were any cards issued to staff. Ms West said that there were 10-15 across the organisation, which were issued to services required to make emergency purchases only.

Councillor Iggulden expressed concern that leaseholders were exempt from the gas safety requirements in place for tenants in the same buildings, which he said left a considerable risk. The Chairman asked what publicity had been undertaken to leaseholders. Michael Sloniowski, Bi-Borough Risk Manager, said that work had been done by Housing and Regeneration, and he would ask them to give a response to the Committee detailing what had been done.

#### **RESOLVED THAT**

- (i) The report be noted, and;
- (ii) That officers be requested to report to the Committee on the contracts register, and;
- (iii) That officers be requested to give a response to the Committee on the work undertaken to promote gas safety to leaseholders.

#### **29. 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 previous meeting. He said that the borough's risk management function was now integrated with that of RBKC, and this was reflected in the Risk Register. He noted that the boroughs had different risk appetites and different controls.

Councillor Murphy asked for a full list of Children's Services/Education risks, and Mr Sloniowski agreed to supply them. Councillor Murphy then asked what external working and validation was undertaken. Mr Sloniowski said that he had recourse to the work of CIPFA and the Institute of Risk Management, as well as bulletins from insurers. He also sought insights from the private sector, and an external validation process was in place for IT and Information Management risks.

Councillor Murphy asked for information on the Council's insurance cover in case of a claim similar to that made on Stockport, and asked for clarification why the increased income target for Cemeteries might not be met.

The Chairman asked about work undertaken in preparation for a flood. Mr Sloniowski said that work was ongoing and that the Special Response Group had met once already. Further action was dependent on a change in the situation, such as anticipated flooding.

#### **RESOLVED THAT**

- (i) The report be noted, and that;
- (ii) Officers be asked to respond to the Committee on the Council's insurance cover, the income target for Cemeteries and the emergency planning work undertaken in preparation for a flood.

#### **30. INTERNAL AUDIT PLAN 14/15**

Geoff Drake, Senior Audit Manager, introduced the report which set out the plan for internal audits in 2014-15.

Councillors Murphy and Cartwright noted the intention to audit the Mitie contract, and said that it had performed very poorly, with data lost in the transfer. Mr Drake said that this was to some extent a matter for the post-implementation review, but complaints handling would be in scope.

#### **RESOLVED THAT**

The audit plan be agreed.

#### **31. INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 OCTOBER TO 31 DECEMBER 2013**

Geoff Drake, Senior Audit Manager, introduced the report, which set out internal audit activity in the quarter to 31 December 2013. He said that there were 9 outstanding recommendations overdue by 6 months for implementation. He said that further guidance was being drafted on leasing in schools, in relation to matters covered by the St Pauls CE Primary School Audit, which would be reported to the next meeting.

Councillor Murphy raised concern that so many of the recommendations made in relation to the Tri-Borough Fostering Service had not been implemented, but were reported as having been implemented. Mr Drake said that he did not have the details to hand though he understood that the recommendations not implemented had not been Priority 1. Internal Audit monitor the level of effective implementation of recommendation across the programme of follow up audits, he would check on this particular case and will provide a report to members..

#### **RESOLVED THAT**

- (i) That the report be noted, and;
- (ii) That the reasons for the non-implementation of recommendations in the Tri-Borough Fostering Service be reported to members.

#### **32. 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.

**33. EXEMPT MINUTES OF THE PREVIOUS MEETING**

**RESOLVED THAT**

That the exempt minutes of the previous meeting be agreed.

Meeting started: 7.00 pm  
Meeting ended: 9.50 pm

Chairman .....

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