



CITY OF WESTMINSTER

DRAFT MINUTES

Audit and Performance Committee

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Audit & Performance Committee** held at 6.30pm on Thursday 2nd May 2019, Room 18.1/18.2, 18th Floor, Westminster City Hall, 64 Victoria Street, London SW1E 6QP.

Members Present: Councillors Ian Rowley (Chairman), David Boothroyd, Robert Rigby and Jacqui Wilkinson.

Also Present: Gerald Almeroth (Executive Director of Finance & Resources), Paul Dossett (Grant Thornton), Laurelin Griffiths (Grant Thornton), Damian Highwood (Evaluation & Performance Manager), Dave Hodgkinson (Director of Corporate Finance & Property), Kevin Humpherson (Deloitte). Paul Jacklin (Grant Thornton), Moira Mackie (Senior Internal Audit Manager), Andrew Palmer (Senior Committee Officer), Mo Rahman (Planning & Performance Manager), Rikin Tailor (Head of Corporate Finance), Phil Triggs (Tri-Borough Director of Treasury & Pensions).

1 MEMBERSHIP

- 1.1 There were no changes to Membership.

2 DECLARATIONS OF INTEREST

- 2.1 Councillor Jacqui Wilkinson declared that she was Deputy Cabinet Member for Economic Development, Education & Skills.

3 MINUTES

- 3.1 **RESOLVED:** That the Minutes of the meeting held on 5 February 2019 be agreed by the Committee as a correct record of proceedings.

4. 2018-2019 ANNUAL STATEMENT OF ACCOUNTS AND OUTTURN

- 4.1 Dave Hodgkinson (Director of Corporate Finance & Property) and Gerald Almeroth (Executive Director of Finance Resources) submitted the draft Annual Statement of Accounts for the 2018/19 financial year. The report included a detailed commentary of the key sections of the financial statements.
- 4.2 The General Fund revenue position had seen a net outturn of £3.916m underspend against an approved budget of £187.641m, which would increase

general reserves to £62.783m and increase financial resilience to withstand any short-term funding shortfalls arising from the Fair Funding Review and Spending Review. The Housing Revenue Account (HRA) revenue outturn was a surplus of £4.678m, against a budgeted surplus of £6.993m. The General Fund capital outturn represented a gross expenditure underspend of £54.858m against budget and a net underspend of £44.571m. The total value of the Pension Fund as at 31st March 2019 was £1.403bn; with an allocation of 9% within property; 1% in infrastructure; 69% in equities; and 21% in fixed income. Variances and overall reduction in cash investments had been due to changes in business rates and spend on the capital programme; and the changes in assets had reflected City Hall being included in investments. Although the accounting valuation of the Fund was done every year, the actuarial valuation of the pension fund was carried out every three years and was due in June 2019. The external audit of the City Council's financial statements (Council and Pension Fund) was ongoing, and progress would be reported separately.

- 4.3 The Committee commented on the length of the Statement of Accounts, and the City Council's external auditor confirmed that the document needed to meet the requirements of Chartered Institute of Public Finance & Accountancy (CIPFA), and that the City Council was working with CIPFA to be able to produce a more understandable and less complex set of accounts. It was hoped that a more slimmed down version would eventually be possible.
- 4.4 The Committee discussed the HRA and underspend on housing, and noted the disconnect between the rise in demand for housing and the drop in the purchase of properties which could provide temporary accommodation. The Director of Corporate Finance & Property commented that not enough properties of the right standard, cost and level were being found that could be supported by a sound business case. Members asked whether the area that was being considered for housing needed to change, and the Director confirmed that this was being reviewed. The Committee noted that pressures in areas such as housing currently existed across all local authorities.
- 4.5 The Committee commented on the pattern of underspend in the Capital Programme and suggested that while some issues were out of the City Council's control, others may be more operational.
- 4.6 Members commented on the overspend in Children & Family Services, and noted the increase in the number of looked after children. The Director of Corporate Finance & Property acknowledged that this was a challenge and potential risk that needed to be managed through budget and a range of service strategies; and that this had become a key lobbying issue as Home Office funding was not covering costs.
- 4.7 The Committee discussed borrowing, and noted that the City Council had used internal resources to fund capital expenditure rather than having to borrow. Other issues discussed included the costs associated with the retro-fitting of the waste fleet; the reduction in the number of non-domestic rating appeals compared to last year; the overspend on legal services; and targets for treasury income.
- 4.8 The accounts would be presented for formal sign off by the Committee at the next meeting on 17 June 2019.

- 4.9 **RESOLVED:** That the draft Annual Statement of Accounts for the 2018/19 financial year be noted

ACTIONS:

1. That details be given of any penalty payment that may be incurred from the re-profiled retro-fitting of the waste fleet to meet the requirements of London's Ultra Low Emissions Zone. **(Action for Dave Hodgkinson - Director of Corporate Finance & Property)**
2. The more detail be provide on the £1.5m gained following a dispute with a contractor. **(Action for Dave Hodgkinson - Director of Corporate Finance & Property)**

5. PENSIONS INVESTMENT AND ADMINISTRATION UPDATE

- 5.1 Phil Triggs (Tri-Borough Director of Treasury & Pensions) presented the annual update on pensions investment and administration, together with the internal control processes that were in place. The report also provided an update on the performance of the Pension Fund's investments, strategic asset allocation, investment manager arrangements and funding position to 31 March 2019.
- 5.2 The Committee noted that the fund had marginally underperformed the benchmark net of fees by 0.1% over the year to December 2018; and that the estimated funding level as at 31 December 2018 had been 94.5%. The funding position remained currently stable, subject to market volatility. The total value of the Fund as at 31 March 2019 was £1,403m; with an asset allocation of 9% within property; 1% in infrastructure; 69% invested in equities; and 21% in fixed income. There had been changes in asset allocation during the year, with one fund manager being phased out and two additional fund managers being appointed.
- 5.3 Kevin Humpherson (Manager, Deloitte Pensions Consultancy) reported that although there had been significant levels of volatility in the UK market over the past year, performance had improved in January onwards this year. Global equity markets had been very similar to the UK; and property investments had returned 6% over the 12 month period, which had been strong but less than seen over recent years.
- 5.4 The Committee expressed concern over the operation and performance of the London Collective Investment Vehicle (CIV), which currently held 70% of the City Council's total portfolio making Westminster the CIV's biggest investor. Under the scheme, local authorities were moving away from investing their own funds and were instead investing via a small number of pools around the country that still deferred to individual local authorities for their asset allocation and investment strategy. The Committee noted that the City Council's funds were still managed by the fund managers that had been selected by the City Council's Pension Fund Committee, and that the portfolios had switched to the CIV. As the overarching investment body, the CIV had managed to negotiate

much lower fees, which had resulted in substantial savings and a positive benefit to Westminster's Pension Fund overall.

- 5.5 The Committee discussed the influence the City Council could have on the CIV in view of its currently being the largest investor. The Tri-Borough Director of Treasury & Pensions confirmed that the London CIV was owned by all 32 London Boroughs, and that Westminster was well represented in the governance process with Councillor Cox being one of 8 elected Members on the Shareholder Committee; and Gerald Almeroth (Executive Director of Finance & Resources) being one of four London Treasurers.
- 5.6 Members highlighted the risk of the City Council being in a system where it had to invest with one organisation which had no competitive pressure or competition that could compel it to operate efficiently. Although the CIV had initially been dysfunctional, the arrangements had been reviewed by local authorities and a new structure put in place over the last year. A new permanent Chief Executive had also been appointed. The CIV would continue to grow over time as funds were transferred from all London boroughs, and it was intended that the vast majority of local authority pension investments would be made through the CIV.
- 5.7 The Committee considered that the possibility of the CIV gaining the statutory right to select investment managers on behalf of local authorities represented a serious risk. The Tri-Borough Director confirmed that the position was under review, and that the City Council had submitted concerns as part of a consultation exercise on whether the pooling process should be mandatory. The result of the process would be known later in the year.
- 5.8 **RESOLVED:** That the annual update on pensions investment, administration and internal control processes be noted

6. DRAFT AUDIT FINDINGS REPORT 2018-19

- 6.1 Laurelin Griffiths, Paul Dossett and Paul Jacklin (Grant Thornton) presented a report from Westminster's external auditors, which set out the key findings from the work that had been completed in their audit of the City Council's financial statements (Council and Pension Fund) for the year ending 31 March 2019. The Auditors had received the draft accounts on 16 April and would update the Committee on its findings at its next meeting on 17 June, when the accounts would be finalised.
- 6.2 The audit progress report for the City Council had highlighted significant risks, together with the work that was being done to mitigate potential problems. The risks had included management over-ride of controls; valuation of land and buildings; valuation of the pension fund net liability; and the provision for Business Rate appeals. Grant Thornton confirmed that testing on the Pension Fund was almost complete, and was only awaiting details from fund managers and of voluntary contributions. The Auditors expected to issue unqualified audit opinions on both sets of financial statements.
- 6.3 The Committee discussed ledger balances and the transfer of data from Agresso to SAP. Although there had been a potential moderate increase in risk

from the accounts being calculated under the new system, concerns around year end had been mostly based on familiarity, and Grant Thornton had reviewed the balances from the old to the new ledger and were satisfied that all data had been transferred.

- 6.4 The Committee also discussed the risk associated with the valuation of land and buildings, and noted that problems relating to property were not specific to Westminster but affected all local authorities. Committee Members commented that there could be differences of 20-30% in balance sheet outcomes if different property valuers were used, and the Assistant City Treasurer confirmed that the City Council had continued to use the same valuer.
- 6.5 The Committee congratulated Westminster's finance department for being one of the first local authorities to submit their findings reports.
- 6.6 **RESOLVED:** That the draft audit findings and subsequent recommendations from Grant Thornton be noted

7. PERFORMANCE BUSINESS PLAN (QUARTER 3) MONITORING REPORT

- 7.1 Damian Highwood (Evaluation & Performance Manager) and Mo Rahman (Planning & Performance Manager) presented a report which set out how Westminster was performing against the City for All priorities and Business Plans at the end of the third quarter of the 2018/19 financial year (October – December 2018). The report set out performance achievements and opportunities; and provided explanations and commentary for outstanding and poor performance, together with details of any remedial action that was being taken. The report also featured analysis of the findings from the 2018 City Survey.
- 7.2 The Committee discussed the report and commented on the KPI's that had either missed the ideal target at Quarter 3 or had only met the minimum standard. The Committee also commented on the City for All top achievements for Excellent Local Services and commended the report for setting out the action that was being taken in mitigation. It was noted that the School Budget Deficit remained an ongoing risk.
- 7.3 Committee Members noted that although the percentage of people who thought they were in good health had risen over the past year from 84% to 87%, the percentage of households who used sports and leisure facilities had fallen significantly from 30% to 17%. The Evaluation & Performance Manager confirmed that the sports centre results had been derived from the City Survey, which had asked specifically about the use of Westminster's centres and not included private gyms. The Evaluation & Performance Manager reported that actual user number of Westminster's facilities had also been slightly higher, although the improvement had not been captured the Survey. The Survey had been a long document with generic questions which could be misinterpreted and did not provide a complete picture of the profile of sports centres with casual users such as commuters being left out of the statistics. Usage had also been clearly linked with age group and not gender or ethnicity; and people above a certain age were not using Westminster's sports and leisure centres.

The City Survey had also indicated that the longer residents had lived in Westminster, the greater their level of satisfaction.

- 7.4 The Committee expressed concerned over the rise in knife crime and reduction in police resources, and noted that the Basic Command Unit merger would be considered at the next meeting. The performance of the City Council's Housing Service following the transition would be also be reviewed later in the year. Members highlighted the need to engage CityWest Homes residents, and noted that work on a communications strategy for Westminster housing residents was ongoing
- 7.5 The Committee discussed the performance of the Westminster Employment Service, which had supported over 700 residents into work by the, with over 250 of those having been long-term unemployed. Members considered that the effectiveness of the service and calculations for costs per job placement needed to be measured against long-term employment which extended over two years, rather than the period of 6 months given in the report.
- 7.6 Committee Members commented on the risks of delivering the capital investment programme for Oxford Street on time and to budget, and sought clarification of the return that would be received from the project. It was noted that the strategy included seeking funding from the public sector, and the Executive Director of Finance Resources confirmed that the project was not intended as an investment for financial return, but a material and economic improvement of Oxford Street.
- 7.7 The Committee was that 39 sites had been approved for the City for All 20 mph zone and noted that plans for a wider rollout in other areas were currently subject to consultation. Members also discussed the fragility of the market in Adult Social Care and Public Health, which were off-track and not sustainable; and noted the increase in Unaccompanied Asylum Seeking Children in Westminster.
- 7.8 Other issues discussed included the relocation of the Housing Solution Service to Bruckner Street; the City for All Green Agenda; the number of rough sleepers who were part of organised crime begging gangs being unknown; and risks associated with parking.

ACTIONS:

1. That the review of the Housing Service following the transition of CityWest Homes, which is to be submitted to the Committee later in the year, captures issues around Anti-Social Behaviour. **(Action for Ian Clark and Susan Barber – Performance Managers)**
2. That more detail be provided in the drop in City Survey results for the proportion of households who use sports and leisure facilities. **(Action for Twila Grower - CMC Business & Performance Manager)**
3. That the Westminster Employment Service provide details of the issues that prevent long-term tracking of residents that had been supported into work. **(Action for Ian Clarke – Performance Manager)**

4. That clarity be provided on the plans for the wider roll-out of the City for All 20 mph zone to 39 new sites. **(Action for Twila Grower - CMC Business & Performance Manager)**
5. That more detail be provided on the current challenges in the market for Adult Social Care and Public Health, including where the main risks are. **(Action for Gary Hamilton – Head of Programme Management, Adult Social Care)**
6. That a profile be provided of Unaccompanied Asylum Seeking Children in Westminster, including details of where they were from; whether there was any evidence that there was some form of trafficking involved; and what the City Council was doing to seek financial support. **(Action for John O’Sullivan – Head of Business Intelligence & Strategy, Children’s Operations)**
7. That detail be given of which Wards will be receiving the 3,000 trees that are to be planted by 2020. **(Action for Ian Clarke – Performance Manager)**
8. That a briefing be provided on whether the Parking deficit is structural or cyclical. **(Action for Twila Grower – CMC Business & Performance Manager)**
9. That further detail be given on the media platforms targeted by the Media Monitor dashboard to track both proactive and reactive stories. **(Action for Damian Highwood – Evaluation & Performance)**

8. INTEGRATED INVESTMENT FRAMEWORK 2018/19 OUTTURN

- 8.1 Phil Triggs (Tri-Borough Director of Treasury & Pensions) presented the 2018/19 outturn report for the City Council’s Investment Framework. As at 31 March 2019, Westminster held £729m of short term cash based investments, and owned a significant number of investment properties which had been revalued at £472.7m. The City Council also held a number of long-term loans and equity shareholdings, and was responsible for managing the Westminster Pension Fund which had net assets of £1.403bn. The Committee noted that the Council had sought to obtain the maximum amount of income consistent with an optimum level of risk, and that security of capital and liquidity requirements were higher priorities than investment yield.
- 8.2 The Committee discussed Westminster’s investment portfolio and commented on the high concentration of investment in car parking. Dave Hodgkinson (Director of Corporate Finance & Property) acknowledged that car parking was currently bringing in revenue at a good return, and confirmed that the City Council would keep the car parks under review and would look at alternative uses if income dropped. Committee Members commented on the potential for car parks to be redeveloped.

- 8.3 The Committee discussed the investment of the Pension Fund, and noted that although yield was just over 1%, this represented a negative real return when offset against current inflation at 1.8%. Members also commented on the existing deficit in the Pension Scheme, and on the contribution plan that had been put in place to close it.
- 8.4 **RESOLVED** that the outturn report for 2018/19 for the City Council's Investment Framework be noted.

9. TREASURY MANAGEMENT STRATEGY OUTTURN 2018/19

- 9.1 Phil Triggs (Tri-Borough Director of Treasury & Pensions) presented the City Council's Annual Treasury Management Outturn for 2018/19. The report reviewed how borrowing had been managed to ensure that the funding of the Council's future capital programme was at optimal cost. The report had also considered how surplus cash balances arising from the day-to-day operations of the Council had been invested, to obtain an optimal return while ensuring security of capital and liquidity. The Committee noted that treasury income generated in 2018-19 had been substantially above budget, and that the treasury portfolio valued at 31 March 2019 had been £729m.
- 9.2 The Committee discussed bank deposits, and the Tri-Borough Director of Treasury & Pensions confirmed that deposits had been concentrated in UK banks and very high quality foreign banks. No investments were currently made for longer than 12 months, and banks' ratings were carefully monitored.
- 9.4 Members also discussed the principles and priority of investments that were set out in official guidance; together with the ongoing monitoring of borrowing and the cost of redemption, and political risks such as future capital controls and nationalisation.
- 9.5 **RESOLVED** that the City Council's Annual Treasury Management Outturn for 2018/19 be noted.

10. REVIEW OF EFFECTIVENESS

- 10.1 Moira Mackie (Senior Internal Audit Manager), presented a report which detailed the outcome of reviews which had sought to determine the effectiveness of local services at Westminster, together with the management of public funds. The review had focussed on the effectiveness of the roles of the Chief Financial Officer and Head of Internal Audit; and on compliance with the Public Sector Internal Audits Standards. The review had also included the role of the Audit & Performance Committee, and had recommended that consideration be given to the Committee extending its membership to include co-opted independent specialists. The review suggested that the Committee provide an annual report on its work and performance to Council; and that the CIPFA Knowledge and Skills Framework for Audit Committees be used to identify topics for future briefings.
- 10.2 The Committee discussed the report and proposals, and requested that fraud risks be considered in more detail and include any potential risks of fraud that

may have been identified during the transition of CityWest Homes to an in-house service.

10.3 The Committee noted that the roles of the City Treasurer and Executive Director of Finance & Resources had now merged, and included procurement, corporate property and IT. Members also discussed the size of the Committee, and whether the current composition of four Members provided an appropriate range of skills.

10.4 **RESOLVED that**

1. The outcomes of Review of Effectiveness be noted;
2. Independent specialists should be invited to attend meetings for specific subjects on a similar basis to Policy & Scrutiny Committees; and
3. Consideration be given to submitting an annual report to Full Council on the work of the Audit & Performance Committee, which would include a review of Westminster's Pension Fund.

ACTIONS:

The recommendation that an annual report on the work of the Audit & Performance Committee be submitted to Full Council to be taken forward.

(Action for Andrew Palmer – Senior Committee & Governance Officer)

11. WORK PROGRAMME AND ACTION TRACKER

11.1 The Committee discussed its Work Programme for the forthcoming municipal year.

11.2 **RESOLVED:** That

1. The Work Programme including the items for the next meeting on 17th June 2019 be noted;
2. The responses to actions from the last meeting be noted; and
3. A review of Green Issues in Westminster be added to the future Work Programme.

The Meeting ended at 8.55 pm.

CHAIRMAN: _____

DATE _____