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GREATER MANCHESTER PENSION FUND - LOCAL PENSIONS BOARD

Day: Thursday
Date: 30 March 2017
Time: 3.00 pm
Place: Guardsman Tony Downes House, Manchester Road,
Droylsden, M43 6SF

Item No.	AGENDA	Page No
1.	APOLOGIES FOR ABSENCE	
2.	DECLARATIONS OF INTEREST To receive any declarations of interest from Members of the Board.	
3.	MINUTES The Minutes of the meeting of the Local Pensions Board held on 15 December 2016 to be approved as a correct record.	1 - 4
4.	SUMMARY OF GMPF DECISION MAKING Report of the Assistant Executive Director of Pensions, Funding and Business Development, attached.	5 - 8
5.	ACTUARIAL VALUATION Report of the Executive Director of Pensions, Funding and Business Development, attached.	9 - 16
6.	INVESTMENT STRATEGY STATEMENT Report of the Assistant Executive Director of Pensions, (Investments), attached.	17 - 50
7.	CONSOLIDATION OF LGPS INTERESTS Report of the Assistant Executive Director of Pensions, Funding and Business Development, attached.	51 - 96
8.	2016/2017 EXTERNAL AUDIT PLAN Report of the Assistant Executive Director of Pensions, Local Investments and Property, attached.	97 - 116
9.	RISK MANAGEMENT AND AUDIT SERVICES 2016/17 Report of the Head of Risk Management and Audit Services attached.	117 - 124

From: Democratic Services Unit – any further information may be obtained from the reporting officer or from Carolyn Eaton, Senior Democratic Services Officer, 0161 342 3050 or carolyn.eaton@tameside.gov.uk to whom any apologies for absence should be notified.

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10. VISITS TO CONTRIBUTING BODIES 125 - 128

Report of the Head of Risk Management and Audit Services attached.

11. URGENT ITEMS

To consider any additional items the Chair is of the opinion shall be dealt with as a matter of urgency.

GREATER MANCHESTER PENSION FUND

LOCAL PENSIONS BOARD

15 December 2016

Commenced: 3.00pm

Terminated: 4.30pm

Present:	Councillor Fairfoull (Chair)	Employer Representative
	Councillor Cooper	Employer Representative
	Richard Paver	Employer Representative
	Jayne Hammond	Employer Representative
	Paul Taylor	Employer Representative
	Dave Schofield	Employee Representative
	Catherine Lloyd	Employee Representative

Apologies for absence: Pat Catterall, Chris Goodwin and Mark Rayner

21. CHAIR'S OPENING REMARKS

The Chair welcomed everyone to the meeting and made reference to the scrutiny role of the Local Board. The Chair reported that he had recently attended a training event which suggested that the boards focus their attention on their fund's decision making process. For example, recommendations made by the Working Groups could be an area for consideration going forward.

22. DECLARATIONS OF INTEREST

There were no declarations of interest submitted by Members in relation to items on the agenda.

23. MINUTES

The Minutes of the meeting of the Local Pensions Board held on 13 October 2016, having been circulated, were signed by the Chair as a correct record.

24. 31 MARCH 2016 ACTUARIAL VALUATION

The Assistant Executive Director of Pensions, Funding and Business Development, submitted a report providing an update on the 2016 actuarial valuation and the issues that would arise therefrom, as reported to the last meeting of the Management Panel (Meeting of 18 November 2016, Minute 63 refers).

Reference was made to the Funding Strategy Statement (FSS), which provided guidance to the Actuary in undertaking the actuarial valuation. Members were informed that, in order to support the requirement for a FSS, CIPFA produced guidance in 2004, which was periodically updated to reflect changes in the LGPS Regulations and the wider investment landscape. An updated FSS had been prepared reflecting the new 2016 CIPFA guidance and changes to the administration of GMPF over the intervening period, a copy of the FSS was appended to the report.

It was explained that it was intended that the FSS be issued to employers for consultation in late November 2016, at the same time as employers would be notified of provisional contribution rates.

The final version of the FSS was expected to be formally approved by the GMPF Management Panel at its meeting on 10 March 2017.

Whole-fund results, as presented at the meeting of the Management Panel held on 23 September 2016, (Minute 36 refers), were set out in the report and it was explained that a typical GMPF employer was likely to see an improvement in their funding level of around 5% from 2013, although this would differ between employers depending on liability profile and member experience.

The report concluded that, whilst very few valuations had reached a conclusion, the expectation was that GMPF would maintain its position as one of the better funded local authority schemes and its employers' average employer contribution rate would again be at the lower end of the range. GMPF's major employers such as the ten GM Local Authorities and the National Probation Service, were likely to see minimal changes to their rates. This was also the case for a large majority of Scheduled Bodies such as Academy Schools and Further Education Colleges.

However, careful consideration was being given to the proposed contribution rate for each employer to ensure it reflected the risk that the employer posed to the Fund, whilst remaining affordable for the employer. There was considerable work required in calculating and notifying employers of their revised contribution rates and answering any related questions from employers.

RESOLVED

That the content of the report and the draft Funding Strategy Statement, (as appended to the report), be noted.

25. PUBLIC SECTOR EXIT PAYMENT REFORMS

Consideration was given to a report of the Assistant Executive Director of Pensions, Funding and Business Development, which provided a summary of developments regarding the proposed restrictions on public sector exit payments and the LGPS implications.

It was reported, that at the start of the year, the Government issued a consultation on possible reforms to early exit payments across the public sector. It had recently responded to the consultation to confirm the Government's commitment to restrict public sector exit costs, establish guidelines for a common framework and set a timeline for reform up to the end of June 2017.

A link to the responses to the consultation was provided in the report.

It was explained that, consistent with the Government's view that it remained appropriate for the detail for exit arrangements to be negotiated at workforce level, departments responsible for the workforces would take forward the detailed design and analysis of proposals for exit payment reform, within the overall framework and principles for reform.

The Government expected departments to put forward proposals for reform within three months of the publication of the government response (September 2016). Departments should then consult on proposals as appropriate and should follow the normal process of discussions and negotiations with Trade Unions and other workforce representatives in order to seek agreement to their reform proposals. The government expected this discussion process to be concluded, agreement reached and the necessary changes made to compensation schemes and other arrangements within nine months.

RESOLVED

That the content of the report be noted.

26. THE PENSIONS REGULATOR'S PUBLIC SERVICE GOVERNANCE SURVEY 2016

A report of the Assistant Executive Director of Pensions, Funding and Business Development, was submitted, which made reference to the Public Service Governance survey 2016, recently issued by the Pensions Regulator.

Board members were informed that a draft response to the survey had been completed by GMPF officers, a copy of which was attached to the report.

Member's input was sought in respect of Question 6, Section B, which asked the survey respondent to rate the Pensions Board's ability on a scale of 1 to 10 to undertake the following:

- (a) Identify to the scheme manager where there are poor standards and/or non-compliance with legal requirements;
- (b) Set out recommendations to the scheme manager on addressing poor standards and/or non-compliance with legal requirements
- (c) Advise the scheme manager on scheme regulations, the governance and administration requirements set out in legislation, and the standards expected by the Pensions Regulator;
- (d) Take or secure actions to address poor standards and/or non-compliance with legal requirements.

Discussion ensued with regard to the above and it was agreed that (a) be recorded at 7/10 and points (b), (c) and (d) be recorded at 8/10.

A wider discussion also ensued in respect of the questionnaire and areas/issues for the Board to scrutinise going forward. Feedback from/communication with Employers, was identified as a possible useful exercise. The Executive Director explained that engagement with Employers had been identified as an area for improvement and that work was ongoing with the Administration Team with regard to this.

RESOLVED

That the responses to the survey questions (as set out in the report) be recorded as detailed above.

27. RISK MANAGEMENT AND AUDIT SERVICES SUMMARY REPORT FOR THE 34 WEEKS TO 25 NOVEMBER 2016

A report was submitted by the Head of Risk Management and Audit Services summarising the work of the Internal Audit Service for the 34 weeks to 25 November 2016.

Details were given of final and draft reports issued during the period. Details were also given of audits in progress as follows:

- National Fraud Initiative Data Matching Exercise for 2016/17;
- Unitisation;
- Visits to Contributing Bodies;
- Application Review of the Altair System;
- Visit to the Property Fund Manager;
- Risk Management Review; and
- Employer Agreements.

Five Post Audit Reviews were also in progress as follows:

- Transfer of Assets from UBS to Investec;
- Transfers to Defined Contribution Schemes;
- New Property Management Contract;
- Admitted Bodies; and

- The Valuation and Transfers of Assets from Probation Trusts to GMPF.

In respect of the Internal Audit Plan 2016/17, details of the days spent against the plan to date, were appended to the report. It was reported that recent meetings had taken place with Assistant Executive Directors in November 2016, to review the Internal Audit Plan, and as a result, some changes had been made to the Plan, which were also demonstrated in the Appendix to the report.

RESOLVED

That the content of the report be noted.

28. LOCAL GOVERNMENT PENSION FUNDS 2016/17 – ACCOUNTING UPDATE BY CIPFA

Consideration was given to a report of the Assistant Executive Director of Pensions, Local Investments and Property, which advised that CIPFA were responsible for providing guidance to administering authorities on compliance with Accounting Requirements, including providing sample accounts and organising regular workshops. Board Members were informed that Officers of the Fund regularly attended these events to keep up to date with best practice.

The Assistant Executive Director made reference to a presentation, attached to the report, which provided an update to Local Board Members on developments for 2016/17 Accounts.

The presentation highlighted the main changes to Pension Fund accounts around Management costs, Fair Value and key personnel disclosures and current developments, including the benefits of a faster closedown of accounts and the implications of IFRS 9 Financial Instruments.

RESOLVED

That the content of the presentation be noted.

CHAIR

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Agenda Item 6

Report to:	GMPF LOCAL PENSIONS BOARD
Date:	30 March 2017
Reporting Officer:	Sandra Stewart, Executive Director of Pensions Steven Taylor, Assistant Executive Director of Pensions (Investments)
Subject:	INVESTMENT STRATEGY STATEMENT
Report Summary:	<p>The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force on 1 November 2016.</p> <p>The Regulations require that the Fund publish an Investment Strategy Statement no later than 1 April 2017.</p> <p>GMPF's draft Investment Strategy Statement was considered and approved by the GMPF Management Panel at its 10 March meeting. The report presented to the Panel is attached for the Board's consideration.</p>
Recommendation(s):	That the Board notes the report and the decision of the Management Panel.
Financial Implications: (Authorised by the Section 151 Officer)	Maintaining a low, stable employer contribution rate is dependent upon good absolute and relative performance from the Fund's investments. The Investment Strategy Statement documents how GMPF addresses achieving this objective.
Legal Implications: (Authorised by the Solicitor to the Fund)	The 2016 Regulations require that the Fund publish an Investment Strategy Statement no later than 1 April 2017.
Risk Management:	Routine investment monitoring and consideration of investment issues facilitates timely action to address investment under-performance and changes in the world economic environment.
ACCESS TO INFORMATION:	NON CONFIDENTIAL This report does not contain information which warrants its consideration in the absence of the Press or members of the public.
Background Papers:	The background papers to this report may be inspected by contacting: Michael Ashworth, Investments Officer, on 0161 301 7257 (email: michael.ashworth@gmpf.org.uk).

1. BACKGROUND

- 1.1 In November 2015, the Government issued a consultation paper “Revoking and Replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009”. The Fund submitted a response to the consultation, which closed on 19 February 2016.
- 1.2 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the “2016 Regulations”) came into force on 1 November 2016, revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the “2009 Regulations”). A copy of the 2016 Regulations is attached at **Appendix A**.
- 1.3 The main area of reform introduced by the 2016 Regulations is the deregulation to a ‘prudential framework’ approach. The 2009 Regulations contained a prescriptive list of limits on the proportion of fund money which was permitted to have been invested in certain investment types. This list has been removed from the 2016 Regulations and replaced by a requirement for Funds to set their own prudent limits, which must be disclosed in an Investment Strategy Statement. The Investment Strategy Statement replaces the Statement of Investment Principles (SIP), which was required by the 2009 Regulations.
- 1.4 As a safeguard to ensure that this less prescriptive approach is used “appropriately, and in the best long term interests of scheme beneficiaries and taxpayers”, the 2016 Regulations enable the Secretary of State to intervene in an administering authority’s management of investments.

2. GMPF’S DRAFT INVESTMENT STRATEGY STATEMENT

- 2.1 The 2016 Regulations require a Fund’s Investment Strategy Statement to cover the following:
 - A requirement to invest fund money in a wide variety of investments.
 - The authority’s assessment of the suitability of particular investments and types of investments.
 - The authority’s approach to risk, including the ways in which risks are to be measured and managed.
 - The authority’s approach to pooling investments, including the use of collective investment vehicles and shared services.
 - The authority’s policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.
 - The authority’s policy on the exercise of rights (including voting rights) attaching to investments.
- 2.2 In September 2016, the Department for Communities and Local Government (DCLG) issued “Guidance on Preparing and Maintaining an Investment Strategy Statement”, which is attached as **Appendix B**. The 2016 Regulations contain a requirement that a Fund’s Investment Strategy Statement be formulated in accordance with this Guidance.
- 2.3 The majority of the Investment Strategy Statement content mirrors the requirements of the current SIP. A copy of GMPF’s draft Investment Strategy Statement is attached at **Appendix C**.
- 2.4 The main differences between the draft Investment Strategy Statement and the current SIP are threefold. Firstly, the new Appendix to the draft Investment Strategy Statement broadly replicates the prescriptive limits on investments that the Fund adhered to under the 2009 Regulations, with minimal amendments specifically designed to provide ‘headroom’ for the Fund’s approved programmes of alternative investments to be implemented by way of limited partnerships.

- 2.5 Secondly, a new section has been incorporated into the draft Investment Strategy Statement, which describes the Fund's approach to Pooling (Section 8). This section, largely drawing upon the Northern Pool's submission to Government, is intended to be common to each of the Fund's within the Northern Pool.
- 2.6 Thirdly, the requirement to report on the Fund's approach to Environmental, Social and Governance factors has been enhanced. For example, Funds are now required to explain their policy on stewardship with reference to the Stewardship Code. The draft Investment Strategy Statement therefore explicitly states that the Fund is a 'Tier 1' signatory to the Stewardship Code (Section 9.2). The draft Investment Strategy Statement also sets out the Fund's approach to Social Investments (Section 9.5), and confirms that the Fund will report on its voting activity as part of its Annual Report (Section 10.2).
- 2.7 It has been an exceptionally busy time for the Fund recently. In addition, Government provided a relatively short timeframe for Funds to formulate an Investment Strategy Statement. The attached draft Investment Strategy Statement is thus the result of a relatively 'light touch' review, in order for the Fund to meet the statutory deadline for publication of an Investment Strategy Statement by 1 April 2017. The draft Investment Strategy Statement largely mirrors the approach taken by the Fund within the preceding SIP, with only relatively minimal amendments and may thus be considered to be an interim position, pending progress on pooling and developing the Fund's approach in certain areas.
- 2.8 Panel Members will recall that the Fund's current Statement of Investment Principles (SIP) was adopted by the Management Panel relatively recently, on 11 December 2015. A very thorough review of the SIP was undertaken at that time. A public consultation was also held, with the draft SIP being placed on the Fund's website. A direct alert was also sent to each employer. The consultation ran from Tuesday 11 August 2015 to Friday 4 September 2015.
- 2.9 The Fund was pleased to receive 406 responses to the consultation, which was an excellent response rate. Of the 406 responses, 400 were the result of an organised petition based on an automated email template produced by Manchester Friends of the Earth (FoE). After consulting with the Solicitor to the Fund (Now the Director of the Fund), one change to the draft version of the SIP on which the Fund consulted was made, reflecting the wording requested by Manchester FoE. and may thus be considered to be an interim position, pending progress on pooling and developing the Fund's approach in certain areas.
- 2.10 It is intended that officers will undertake a more detailed review of the Investment Strategy Statement in the next 6 to 9 months, the outcome of which may or may not require a revised Investment Strategy Statement being recommended for adoption by the Panel.
- 2.11 It is anticipated that a public consultation will be held in conjunction with the detailed review.
- 2.12 It is intended that the Fund will hold a Stakeholder Engagement event later in the year, at which the Investment Strategy Statement will be consulted upon.

3. RECOMMENDATION

- 3.1 As set out on the front of the report.

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2016 No. 946

PUBLIC SERVICE PENSIONS, ENGLAND AND WALES

**The Local Government Pension Scheme (Management and
Investment of Funds) Regulations 2016**

<i>Made</i>	- - - -	<i>21st September 2016</i>
<i>Laid before Parliament</i>		<i>23rd September 2016</i>
<i>Coming into force</i>	- -	<i>1st November 2016</i>

The Secretary of State makes these Regulations in exercise of the powers conferred by sections 1(1) and 3(1) to (4) of, and Schedule 3 to, the Public Service Pensions Act 2013(a).

In accordance with section 21(1) of that Act, the Secretary of State has consulted such persons and the representatives of such persons as appeared to the Secretary of State to be likely to be affected by these Regulations.

In accordance with section 3(5) of that Act, these Regulations are made with the consent of the Treasury.

Citation, commencement and extent

1.—(1) These Regulations may be cited as the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

(2) These Regulations come into force on 1st November 2016.

(3) These Regulations extend to England and Wales.

Interpretation

2.—(1) In these Regulations—

“the 2000 Act” means the Financial Services and Markets Act 2000(b);

“the 2013 Regulations” means the Local Government Pension Scheme Regulations 2013(c);

“the Transitional Regulations” means the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014(d);

“authority” means an administering authority listed in Part 1 of Schedule 3 to the 2013 Regulations;

“fund money” means money that is or should be in a pension fund maintained by an authority;

(a) 2013 c. 25; see section 2 of and Schedule 2 to that Act as to how the power is exercisable by the Secretary of State.

(b) 2000 c. 8.

(c) S.I. 2013/2356.

(d) S.I. 2014/525.

“proper advice” means the advice of a person whom the authority reasonably considers to be qualified by their ability in and practical experience of financial matters;

“the Scheme” means the scheme established by the 2013 Regulations.

(2) Any restrictions imposed by these Regulations apply to authorities which have the power within section 1 of the Localism Act 2011(a) (local authority’s general power of competence) or section 5A(1) of the Fire and Rescue Services Act 2004(b) in the exercise of those powers.

(3) Any authority which does not have the powers mentioned in paragraph (2) has, by virtue of these Regulations the power to do anything authorised or required by these Regulations.

Investment

3.—(1) In these Regulations “investment” includes—

- (a) a contract entered into in the course of dealing in financial futures, traded options or derivatives;
- (b) a contribution to a limited partnership in an unquoted securities investment;
- (c) a contract of insurance if it is a contract of a relevant class, and is entered into with a person within paragraph (2) for whom entering into the contract constitutes the carrying on of a regulated activity within the meaning of section 22 of the 2000 Act(c).

(2) The persons within this paragraph are—

- (a) a person who has permission under Part 4A of the 2000 Act (permission to carry on regulated activities)(d) to effect or carry out contracts of insurance of a relevant class;
- (b) an EEA firm of the kind mentioned in paragraph 5(d) of Schedule 3 to the 2000 Act (EEA passport rights), which has permission under paragraph 15 of that Schedule(e) to effect or carry out contracts of insurance of a relevant class; and
- (c) a person who does not fall within sub-paragraph (a) or (b) whose head office is in an EEA state other than the United Kingdom, and who is permitted by the law of that state to effect or carry out contracts of insurance of a relevant class.

(3) A contract of insurance is of a relevant class for the purposes of paragraphs (1)(c) and (2) if it is—

- (a) a contract of insurance on human life or a contract to pay an annuity on human life where the benefits are wholly or partly to be determined by reference to the value of, or income from, property of any description (whether or not specified in the contract) or by reference to fluctuations in, or an index of, the value of property of any description (whether or not so specified); or
- (b) a contract to manage the investments of pension funds, whether or not combined with a contract of insurance covering either conservation of capital or payment of minimum interest.

(4) For the purposes of this regulation—

“limited partnership” has the meaning given in the Limited Partnerships Act 1907(f);

“recognised stock exchange” has the same meaning as in section 1005 of the Income Tax Act 2007(g);

“traded option” means an option quoted on a recognised stock exchange; and

(a) 2011 c. 20.

(b) 2004 c. 21; section 5A was inserted by section 9(1) of the Localism Act 2011.

(c) Section 22 was amended by section 7(1) of the Financial Services Act 2012 (c. 21).

(d) Part 4A of the 2000 Act was inserted by section 11(2) of the Financial Services Act 2012.

(e) Paragraph 15 was amended by S.I. 2003/2066, 2007/3253, 2012/1906, 2013/1881 and 2015/575.

(f) 1907 c. 24.

(g) 2007 c. 3; section 1005 was substituted by the Finance Act 2007 (c. 11) and amended by the Taxation (International and Other Provisions) Act 2010 (c. 8).

“unquoted securities investment partnership” means a partnership for investing in securities which are not quoted on a recognised stock exchange when the partnership buys them.

Management of a pension fund

4.—(1) An authority must credit to its pension fund(a), in addition to any sum otherwise required to be credited by virtue of the 2013 Regulations or the Transitional Regulations—

- (a) the amounts payable by it or payable to it under regulations 15(3)(b), 67 and 68 of the 2013 Regulations (employer’s contributions and further payments);
- (b) all amounts received under regulation 69(1)(a) of the 2013 Regulations (member contributions);
- (c) all income arising from investment of the fund; and
- (d) all capital money deriving from such investment.

(2) In the case of an authority which maintains more than one pension fund, as respects sums which relate to specific members, the references in this regulation to the authority’s pension fund is to the fund which is the appropriate fund(b) for the member in question in accordance with the 2013 Regulations.

(3) Interest under regulation 71 of the 2013 Regulations (interest on late payments by Scheme employers) must be credited to the pension fund to which the overdue payment is due.

(4) An authority must pay any benefits to which any person is entitled by virtue of the 2013 Regulations or the Transitional Regulations from its pension fund.

(5) Any costs, charges and expenses incurred administering a pension fund may be paid from it except for charges prescribed by regulations made under sections 23, 24 or 41 of the Welfare Reform and Pensions Act 1999(c) (charges in relation to pension sharing costs).

Restriction on power to borrow

5.—(1) Except as provided in this regulation, an authority must not borrow money where the borrowing is liable to be repaid out of its pension fund.

(2) Subject to paragraph (3), an authority may borrow by way of temporary loan or overdraft which is liable to be repaid out of its pension fund, any sums which it may require for the purpose of—

- (a) paying benefits due under the Scheme; or
- (b) to meet investment commitments arising from the implementation of a decision by it to change the balance between different types of investment.

(3) An authority may only borrow money under paragraph (2) if, at the time of the borrowing, the authority reasonably believes that the sum borrowed and interest charged in respect of that sum can be repaid out of its pension fund within 90 days of the borrowing.

Separate bank account

6.—(1) An authority must hold in a separate account kept by it with a deposit-taker all fund money.

(2) “Deposit-taker” for the purposes of paragraph (1) means—

- (a) a person who has permission under Part 4A of the 2000 Act (permission to carry on regulated activities) to carry on the activities specified by article 5 of the Financial

(a) An administering authority is required to maintain a pension fund by regulation 53(1) of, and paragraph 1 of Schedule 3 to the 2013 Regulations.
(b) See regulation 53(2) of and Part 2 of Schedule 3 to the 2013 Regulations for provisions relating to an administering authority becoming the “appropriate administering authority” in relation to a person.
(c) 1999 c. 30; see S.I. 2000/1047 and S.I. 2000/1049.

- Services and Markets Act 2000 (Regulated Activities) Order 2001 (accepting deposits)(a);
- (b) an EEA firm of the kind mentioned in paragraph 5(b)(b) of Schedule 3 to the 2000 Act (EEA passport rights) which has permission under paragraph 15 of that Schedule(c) to accept deposits;
- (c) the Bank of England or the central bank of an EEA state other than the United Kingdom; or
- (d) the National Savings Bank.

(3) An authority must secure that the deposit-taker may not exercise a right of set-off in relation to the account referred to in paragraph (1) in respect of any other account held by the authority or any party connected to the authority.

Investment strategy statement

7.—(1) An authority must, after taking proper advice, formulate an investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State.

(2) The authority's investment strategy must include—

- (a) a requirement to invest fund money in a wide variety of investments;
- (b) the authority's assessment of the suitability of particular investments and types of investments;
- (c) the authority's approach to risk, including the ways in which risks are to be assessed and managed;
- (d) the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- (e) the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- (f) the authority's policy on the exercise of the rights (including voting rights) attaching to investments.

(3) The authority's investment strategy must set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.

(4) The authority's investment strategy may not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(d).

(5) The authority must consult such persons as it considers appropriate as to the proposed contents of its investment strategy.

(6) The authority must publish a statement of its investment strategy formulated under paragraph (1) and the first such statement must be published no later than 1st April 2017.

(7) The authority must review and if necessary revise its investment strategy from time to time, and at least every 3 years, and publish a statement of any revisions.

(8) The authority must invest, in accordance with its investment strategy, any fund money that is not needed immediately to make payments from the fund.

(a) S.I. 2001/544; article 5 was amended by S.I. 2002/682.
 (b) Sub-paragraph (b) of paragraph (5) was substituted by S.I. 2006/3211 and then further substituted by S.I. 2013/3115.
 (c) Paragraph 15 has been amended by S.I. 2003/2066, S.I. 2007/3253, 2012/1906, 2013/1881 and 2015/575.
 (d) 2007 c. 28; section 212 was amended by the Police Reform and Social Responsibility Act 2011 (c. 13) and there are prospective amendments made by the Local Audit and Accountability Act 2014 (c. 2).

Directions by the Secretary of State

8.—(1) This regulation applies in relation to an authority's investment functions under these Regulations and the 2013 Regulations if the Secretary of State is satisfied that the authority is failing to act in accordance with guidance issued under regulation 7(1).

(2) Where this regulation applies in relation to an authority the Secretary of State may make a direction requiring all or any of the following—

- (a) that the authority make such changes to its investment strategy under regulation 7 as the Secretary of State considers appropriate, within such period of time as is specified in the direction;
- (b) that the authority invest such assets or descriptions of assets as are specified in the direction in such manner as is specified in the direction;
- (c) that the investment functions of the authority under these Regulations and under the 2013 Regulations be exercised by the Secretary of State or a person nominated by the Secretary of State for a period specified in the direction or for so long as the Secretary of State considers appropriate;
- (d) that the authority comply with any instructions of the Secretary of State or the Secretary of State's nominee in relation to the exercise of its investment functions under these Regulations and the 2013 Regulations and provide such assistance as the Secretary of State or the Secretary of State's nominee may require for the purpose of exercising those functions.

(3) Before making a decision whether to issue a direction under this regulation, and as to the contents of any direction, the Secretary of State must consult the authority concerned.

(4) In reaching a decision whether to issue a direction under this regulation, and as to the contents of any direction, the Secretary of State must have regard to such evidence of the manner in which the authority is discharging or proposes to discharge its investment functions as is reasonably available including—

- (a) any report from an actuary appointed under section 13(4) of the Public Service Pensions Act 2013 (employer contributions in funded schemes) or by the authority under regulation 62 of the 2013 Regulations (actuarial valuations of pension funds);
- (b) any report from the local pension board appointed by the authority or from the Local Government Pension Scheme Advisory Board^(a);
- (c) any representations made by the authority in response to the consultation under paragraph (3);
- (d) any other evidence that the Secretary of State regards as relevant to whether the authority has been complying with these Regulations or acting in accordance with guidance issued under regulation 7(1).

(5) If the Secretary of State is of the opinion that additional information is required to enable a decision to be taken whether to issue a direction under this regulation, or as to what any direction should contain, the Secretary of State may carry out such inquiries as the Secretary of State considers appropriate to obtain that information.

(6) An authority must comply with any request from the Secretary of State intended to facilitate the obtaining of information under paragraph (5).

Investment managers

9.—(1) Instead of managing and investing fund money itself, an authority may appoint one or more investment managers to manage and invest fund money, or any part of such money, on its behalf.

(a) The Local Government Pension Scheme Advisory Board is established by regulation 110 of the 2013 Regulations (which was inserted by S.I. 2015/57).

(2) But the authority may only appoint an investment manager if the authority complies with paragraphs (3) and (4).

(3) The authority must reasonably believe that the investment manager's ability in and practical experience of financial matters make that investment manager suitably qualified to make investment decisions for it.

(4) The authority must take proper advice in relation to the appointment and the terms on which the appointment is made.

Investments under section 11(1) of the Trustee Investments Act 1961

10. An authority to which section 11 of the Trustee Investments Act 1961(a) applies may invest, without any restriction as to quantity, in any investment made in accordance with a scheme under section 11(1) of that Act (which enables the Treasury to approve schemes for local authorities to invest in collectively).

Consequential amendments

11.—(1) The 2013 Regulations are amended as follows.

(2) For regulation 57(1)(i) (pension fund annual report) substitute—

“(i) the current version of the investment strategy under regulation 7 (investment strategy statement) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016;”.

(3) For regulation 58(4)(b) (funding strategy statement) substitute—

“(b) the current version of the investment strategy under regulation 7 (investment strategy statement) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.”.

(4) For regulation 69(2)(b) (payment by Scheme employers to administering authorities) substitute—

“(b) paragraph (1)(c) does not apply where the cost of the administration of the fund is paid out of the fund under regulation 4(5) (management of a pension fund) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.”.

Revocations and transitional provision

12.—(1) The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009(b) and the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2013(c) are revoked.

(2) Regulations 11 (investment policy and investment of pension fund money), 12 (statement of investment principles), 14 (restrictions on investments), 15 (requirements for increased limits) of and Schedule 1 (table of limits on investments) to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 continue to have effect in relation to an authority until the date when that authority first publishes its investment strategy statement under regulation 7.

(3) For the period starting on 1st November 2016 and ending on whichever is the earlier of the date the authority publishes its investment strategy statement under regulation 7, or 31st March 2017, regulation 7 applies to an authority only to the extent necessary to enable that authority to formulate and publish its investment strategy statement.

(a) 1961 c. 62; section 11(1) was amended by the London Government Act 1963 (c. 4) and the Local Government Act 1985 (c. 51).

(b) S.I. 2009/3093.

(c) S.I. 2013/410.

We consent to the making of these Regulations

David Evennett

Guto Bebb

Two of the Lords Commissioners of Her Majesty's Treasury

Signed by authority of the Secretary of State for Communities and Local Government

Marcus Jones

Parliamentary Under Secretary of State

21st September 2016

Department for Communities and Local Government

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations make provision in relation to the management and investment of pension funds held by administering authorities required to maintain such funds by the Local Government Pension Scheme Regulations 2013.

Regulations 2 and 3 respectively contain definitions and make provision that the restrictions imposed by the regulations bind authorities which have the “power of general competence” in the exercise of that power.

Regulations 4, 5 and 6 respectively set out which payments must be made into and out of the pension fund, restrict powers of borrowing and require fund money to be in a separate account.

Regulations 7 and 8 respectively require authorities to publish an investment strategy in accordance with guidance issued by the Secretary of State and enable the Secretary of State to issue a direction to any authority which fails to comply with its statutory obligations as regards its pension fund or which fails to act in accordance with the guidance.

Regulations 9 and 10 respectively allow for the appointment of investment managers and investment in Treasury approved schemes.

Regulations 11 and 12 respectively make consequential amendments relating to the investment strategy published under regulation 7 and transitional provisions.

No impact assessment has been produced because it has no impact on business, charities or voluntary bodies and minimal impact on the public sector.

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Department for
Communities and
Local Government

Local Government Pension Scheme

Guidance on Preparing and Maintaining an Investment
Strategy Statement



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Foreword

This guidance has been prepared to assist administering authorities in the local government pension scheme in England and Wales with the formulation, publication and maintenance of their Investment Strategy Statement.

New investment regulations to be introduced later this year will include a requirement for administering authorities to publish new Investment Strategy Statements by 1st April 2017 in accordance with the guidance set out below.

Administering authorities will be required to act in accordance with the provisions in this guidance when Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 comes into force.

Part 1

Introduction and background

This guidance has been prepared to assist administering authorities in the formulation, publication and maintenance of their Investment Strategy Statement required by Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. Unless otherwise stated, references to regulations are to the 2016 Regulations.

An administering authority's duty to prepare, maintain and review their Funding Strategy Statement under Regulation 58 of the Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations") is unaffected.

Statutory background

Regulation 7(1) requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

The Investment Strategy Statement required by Regulation 7 must include:-

- a) A requirement to invest money in a wide variety of investments;
- b) The authority's assessment of the suitability of particular investments and types of investments;
- c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
- d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

- f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The Investment Strategy Statement must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment. This, in effect, replaces Schedule 1 to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 ("the 2009 Regulations").

Under Regulation 7(6) and (7), the statements must be published by 1st April 2017 and then kept under review and revised from time to time and at least every three years. Under transitional arrangements, key elements of the 2009 Regulations relating to investment policies will continue in force until such time that the Investment Strategy Statement under Regulation 7 is published.

Directions by the Secretary of State

Regulation 8 enables the Secretary of State to issue a Direction if he is satisfied that an administering authority is failing to act in accordance with this guidance.

One of the main aims of the new investment regulations is to transfer investment decisions and their consideration more fully to administering authorities within a new prudential framework. Administering authorities will therefore be responsible for setting their policy on asset allocation, risk and diversity, amongst other things. In relaxing the regulatory framework for scheme investments, administering authorities will be expected to make their investment decisions within a prudential framework with less central prescription. It is important therefore that the regulations include a safeguard to ensure that this less prescriptive approach is used appropriately and in the best long term interests of scheme beneficiaries and taxpayers.

Where there is evidence to suggest that an authority is acting unreasonably, it may be appropriate for the Secretary of State to consider intervention, but only where this is justified and where the relevant parties have been consulted. Regulation 8 includes a number of safeguards, including full consultation with the relevant authority, to ensure that the proposed power is used appropriately, proportionately and only where justified by the evidence.

The Secretary of State's power of intervention does not interfere with the duty of elected members under general public law principles to make investment decisions in the best long-term interest of scheme beneficiaries and taxpayers.

The power of Direction can be used in all or any of the following ways:-

- a) To require an administering authority to make changes to its investment strategy in a given timescale;
- b) To require an administering authority to invest assets as specified in the Direction;
- c) To transfer the investment functions of an administering authority to the Secretary of State or a person nominated by the Secretary of State; and

- d) To require an administering authority to comply with any instructions from either the Secretary of State or the appointed person in circumstances when the investment function has been transferred.

Before issuing any Direction, the Secretary of State must consult the administering authority concerned and before reaching a decision, must have regard to all relevant evidence including reports under section 13(4) of the Public Service Pensions Act 2013; reports from the scheme advisory board or from the relevant local pension board and any representations made in response to the consultation with the relevant administering authority. The Secretary of State also has the power to commission any other evidence or additional information that is considered necessary.

General

Part 2 below sets out the guidance for authorities under each of the component parts of Regulation 7. The specific requirements under each heading are shown at the end of each sub section in a text box and in bold type. It is important to note, however, that these lists are not exclusive and that administering authorities are also required to comply with general public law principles and act within a prudential framework.

Part 2

Regulation 7(2) (a) - Investment of money in a wide variety of investments

A properly diversified portfolio of assets should include a range of asset classes to help reduce overall portfolio risk. If a single investment class is not performing well, performance should be balanced by other investments which are doing better at that time. A diversified portfolio also helps to reduce volatility.

For example, the range of asset classes could include UK and overseas equities of different sectors; bonds with varying maturity; alternative investment assets such as private equity, infrastructure and cash instruments.

However, this guidance does not purport to prescribe the specific asset classes over which fund monies must be diversified. This remains a decision for individual administering authorities to make. Administering authorities are expected to be able to demonstrate that those responsible for making investment decisions have taken and acted on proper advice and that diversification decisions have been taken in the best long term interest of scheme beneficiaries.

An administering authority must also be able to demonstrate that they review their diversification policy from time to time to ensure that their overall target return is not put at risk.

Summary of requirements

In formulating and maintaining their policy on diversification, administering authorities:-

- **Must take proper advice**

- **Must set out clearly the balance between different types of investments**
- **Must identify the risks associated with their overall investment strategy**
- **Must periodically review their policy to mitigate against any such risks**

Regulation 7(2)(b) - The suitability of particular investments and types of investments

The concept of suitability is a critical test for whether or not a particular investment should be made. Although individual investment classes will have varying degrees of suitability in the context of an authority's funding and investment strategies, the overall aim of the fund must be to consider suitability against the need to meet pension obligations as they fall due.

Assessing the suitability of different investment classes involves a number of factors including, for example, performance benchmarks, appetite for risk, policy on non-financial factors and perhaps most importantly, funding strategy.

What constitutes suitability is clearly a matter for individual administering authorities to consider and decide in the light of their own funding and investment strategies, but there is a clear expectation that the assessment should be broadly consistent across all administering authorities. Administering authorities must therefore take and act on proper advice in assessing the suitability of their investment portfolio and give full details of that assessment in their Investment Strategy Statement.

Summary of requirements

In formulating their policy on the suitability of particular investments and types of investments, administering authorities:-

- **Must take proper advice**
- **Should ensure that their policy on asset allocation is compatible with achieving their locally determined solvency target**
- **Must periodically review the suitability of their investment portfolio to ensure that returns, risk and volatility are all appropriately managed and are consistent with their overall investment strategy**

Regulation 7(2)(c) - The approach to risk, including the ways in which risks are to be measured and managed

The appetite of individual administering authorities for taking risk when making investment decisions can only be a matter for local consideration and determination, subject to the aim and purpose of a pension fund to maximise the returns from investment returns within reasonable risk parameters.

Some of the key risks that an administering authority needs to be aware include financial, demographic or regulatory risks. A detailed summary of the identification of all risks and counter-measures to mitigate against them is beyond the scope of this guidance, but administering authorities will continue to have regard to the requirement under Regulation

58 of the 2013 Regulations to have regard to the “Guidance on Preparing and Maintaining a Funding Strategy Statement” published by CIPFA, which includes a section on risk and the ways in which it can be measured and managed.

Summary of requirements

In formulating their policy on their approach to risk, administering authorities:-

- **Must take proper advice**
- **Should clearly state their appetite for risk**
- **Should be aware of the risks that may impact on their overall funding and investment strategies**
- **Should take measures to counter those risks**
- **Should periodically review the assumptions on which their investment strategy is based**
- **Should formulate contingency plans to limit the impact of risks that might materialise**

Regulation 7(2)(d) - The approach to pooling investments, including the use of collective investment vehicles and shared services

All authorities must commit to a suitable pool to achieve benefits of scale. Administering authorities must confirm their chosen investment pool meets the investment reform and criteria published in November 2015, or to the extent that it does not, that Government is content for it to continue.

Any change which results in failure to meet the criteria must be reported by the administering authority, and/or pool, to the Secretary of State and the Scheme Advisory Board.

Administering authorities should set out their approach to pooling and the proportion of assets that will be invested through the pool. This must include the structure and governance arrangements and the mechanisms by which the authority can hold the pool to account.

Where services are shared or jointly procured, the administering authority must set out the rationale underpinning this and the cost benefit of this, as opposed to pooling.

Administering authorities must provide a summary of assets to be held outside of the pool, and how this demonstrates value for money. The progress of asset transfers to the pool must be reported annually against implementation plans and submitted to the Scheme Advisory Board. Where it is possible that an asset could be pooled in the future, authorities must set a date for review and criteria that need to be met before the asset will be pooled.

Summary of requirements

In formulating and maintaining their approach to pooling investment, including the use of collective investment vehicles and shared services, an administering authority must:-

- **Confirm the pooling arrangements meet the criteria set out in the November 2015 investment reform and criteria guidance at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479925/criteria_and_guidance_for_investment_reform.pdf, or have been otherwise agreed by the Government**
- **Notify the Scheme Advisory Board and the Secretary of State of any changes which result in failure to meet the criteria**
- **Set out the proportion of assets that will be invested through pooling**
- **Set out the structure and governance arrangements of the pool and the mechanisms by which the authority can hold the pool to account**
- **Set out the services that will be shared or jointly procured**
- **Provide a summary of assets that the authority has determined are not suitable for investing through the pool along with its rationale for doing so, and how this demonstrates value for money;**
- **Regularly review any assets, and no less than every 3 years, that the authority has previously determined should be held outside of the pool, ensuring this continues to demonstrate value for money**
- **Submit an annual report on the progress of asset transfers to the Scheme Advisory Board**

Regulation 7(2)(e) - How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

When making investment decisions, administering authorities must take proper advice and act prudently. In the context of the local government pension scheme, a prudent approach to investment can be described as a duty to discharge statutory responsibilities with care, skill, prudence and diligence. This approach is the standard that those responsible for making investment decisions must operate.

Although administering authorities are not subject to trust law, those responsible for making investment decisions must comply with general legal principles governing the administration of scheme investments. They must also act in accordance with ordinary public law principles, in particular, the ordinary public law of reasonableness. They risk challenge if a decision they make is so unreasonable that no person acting reasonably could have made it.

The law is generally clear that schemes should consider any factors that are financially material to the performance of their investments, including social, environmental and

corporate governance factors, and over the long term, dependent on the time horizon over which their liabilities arise.

However, the Government has made clear that using pension policies to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries are inappropriate, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

Although schemes should make the pursuit of a financial return their predominant concern, they may also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision.

Investments that deliver social impact as well as a financial return are often described as “social investments”. In some cases, the social impact is simply in addition to the financial return; for these investments the positive social impact will always be compatible with the prudent approach. In other cases, some part of the financial return may be forgone in order to generate the social impact. These investments will also be compatible with the prudent approach providing administering authorities have good reason to think scheme members share the concern for social impact, and there is no risk of significant financial detriment to the fund.

Summary of requirements

In formulating and maintaining their policy on social, environmental and corporate governance factors, an administering authority:-

- **Must take proper advice**
- **Should explain the extent to which the views of their local pension board and other interested parties who they consider may have an interest will be taken into account when making an investment decision based on non-financial factors**
- **Must explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments**
- **Should not pursue policies that are contrary to UK foreign policy or UK defence policy**
- **Should explain their approach to social investments**

Regulation 7(2)(f) - The exercise of rights (including voting rights) attaching to investments

The long-term investment interests of administering authorities are enhanced by the highest standards of corporate governance and corporate responsibility amongst the companies in which they invest. Poor governance can negatively impact shareholder value.

Stewardship aims to promote the long term success of companies in such a way that the ultimate providers of capital also prosper. Stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure

and corporate governance, including culture and remuneration. Engagement by administering authorities is purposeful and can identify problems through continuing dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings.

Engagement enables administering authorities as long term shareholders to exert a positive influence on companies to promote strong governance, manage risk, increase accountability and drive improvements in the management of environmental, social and corporate governance issues.

Administering authorities are encouraged to consider the best way to engage with companies to promote their long-term success, either directly, in partnership with other investors or through their investment managers, and explain their policy on stewardship with reference to the Stewardship Code. Administering authorities should become Signatories to the Code and state how they implement the seven principles and guidance of the Code, which apply on a “comply or explain” basis.

Concern has been expressed in the past about the scope of Regulation 12(2)(g) of the 2009 Regulations which, in effect, allowed each administering authority to decide whether or not to adopt a policy on the exercise of the rights attaching to investments, including voting rights. To increase awareness and promote engagement, Regulation 7(2)(f) now requires every administering authority to formulate a policy that reflects their stewardship responsibilities.

Summary of requirements

In formulating their policy on the exercise of rights, administering authorities:-

- **Must give reasons in their Investment Strategy Statement for not adopting a policy of exercising rights, including voting rights, attaching to investments**
- **Should, where appropriate, explain their policy on stewardship with reference to the Stewardship Code**
- **Should strongly encourage their fund managers, if any, to vote their company shares in line with their policy under Regulation 7(2)(f)**
- **May wish to appoint an independent proxy voting agent to exercise their proxy voting and monitor the voting activity of the managers, if any, and for reports on voting activity to be submitted annually to the administering authority**
- **Should publish a report of voting activity as part of their pension fund annual report under Regulation 57 of the 2013 Regulations**

TAMESIDE MBC

ADMINISTERING AUTHORITY OF THE GREATER MANCHESTER PENSION FUND

INVESTMENT STRATEGY STATEMENT

1) Background

- 1.1 This Statement has been prepared in accordance with the *Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016* ("the Regulations"). The Regulations require administering authorities to prepare, publish, and when appropriate revise, a written statement recording the investment policy of the pension fund; they also stipulate certain key issues which must be covered in the Statement.
- 1.2 The terms of appointments of any external investment managers include a provision that the investment manager must take account of, and shall not contravene, this Statement in undertaking its management role. The Fund may terminate the appointment of any external investment manager by not more than one month's notice.
- 1.3 The Local Government Pension Scheme ("the Scheme") was established by statute to provide death and retirement benefits for all eligible employees. The Scheme is a contributory, defined benefit occupational pension scheme.
- 1.4 Tameside MBC ("the Council") became the administering authority of the Greater Manchester Pension Fund ("the Pension Fund" or "the Fund") in 1987 after the abolition of the Greater Manchester County Council in 1986. The Fund covers all ten district councils of Greater Manchester, the National Probation Service and numerous other smaller employers.
- 1.5 The Statement outlines the broad investment principles governing the investment policy of the Pension Fund. In preparing the Statement, the Council has consulted those persons it considered appropriate.

2) Organisation and Management Arrangements of the Fund

- 2.1 The investment powers of the Council under the Scheme are given in the Regulations. Amongst other matters, the Regulations require the Council to have regard to both the suitability and diversification of its investments and to take proper advice in making decisions regarding the investment matters of the Fund.
- 2.2 The Council has delegated all its functions as administering authority of the Pension Fund to the Pension Fund Management Panel ("the Management Panel" or "the Panel") which routinely meets on a quarterly basis and whose Terms of Reference are detailed in the Council's "Constitution". Amongst other matters, the Panel decides on the investment policy most suitable to meet the liabilities under the Scheme and has ultimate responsibility for the investment strategy.

- 2.3 The Management Panel has in turn appointed a Pension Fund Advisory Panel and external professional Advisors, and has dedicated internal Officers of the Fund to advise it on the exercise of its delegated powers. There are also a number of Working Groups which report quarterly to the Panel on specialist matters.
- 2.4 The Executive Director of Pensions exercises certain delegated powers as specified in the Constitution and provides the link between the Panel, the external professional Advisors and the Fund's investment managers. Each year a Fund "Business Plan" is submitted by the Executive Director of Pensions to the Management Panel for consideration.
- 2.5 A primary objective of the Council is to maintain a low and stable employer contribution rate. This is to be achieved by attempting to maximise the long-term investment return whilst not exceeding an acceptable degree of risk.
- 2.6 The assets of the Fund are separated into two distinct parts – a Main Fund and a Designated Fund. This separation has been made in order to reflect a major difference in liability profiles between most of the employers of the Fund and that of a small number of other employers of the Fund.
- 2.7 Having taken appropriate advice, the Management Panel has decided that a bespoke benchmark, which is biased towards equity is a suitable investment benchmark for the management of the Main Fund. Detail on the Main Fund's bespoke benchmark is included in the Fund's Annual Report and Accounts. This benchmark will be reviewed annually and when appropriate in response to significant changes in the investment environment. The Designated Fund has a bespoke benchmark which is heavily orientated towards UK index linked stock.
- 2.8 The Management Panel has delegated the management of the majority of the Main Fund's securities portfolio, and the management of the Main Fund's direct property portfolio, to regulated, external, professional investment managers whose activities are defined and constrained by detailed Investment Management Agreements. The remainder of the Main Fund (including private equity, infrastructure, local investments, elements of the Special Opportunities Portfolio and UK cash), together with the Designated Fund, is managed internally by Officers of the Fund. The 'Treasury Management' of all UK cash is undertaken by Officers of Tameside MBC.
- 2.9 The Main Fund is largely actively managed but has a significant element, which is passively managed on a pooled basis. Three of the appointed external securities managers have been given individual differing active multi-asset (ex property) discretionary benchmarks reflecting their perceived skills and the relative efficiency of markets. The fourth appointed external securities manager has a single broad equity market benchmark reflecting its specialist mandate. These individual benchmarks are detailed in the Investment Management Agreements and have been chosen so as to be consistent with the overall bespoke benchmark determined for the Main Fund.

- 2.10 Each of the Main Fund's external active securities managers has been set the target of achieving a rolling three year average performance which exceeds the average performance of their individual benchmark by at least 1% per annum. The Fund anticipates that in two years out of three the external active multi-asset securities managers' annual performance will be within 4½% of the annual performance of their individual benchmark. The equivalent range for the specialist securities manager is +/-7%.
- 2.11 The fees of two of the three external active securities managers consist of two elements: an ad-valorem base fee together with a performance element which is capped at a prudent level of outperformance. The fees of the third external active securities manager consists of a fixed base fee with no performance element. The fees of the Main Fund's external passive securities manager consists of an ad-valorem base fee with no performance element. The fees of the external property manager comprise of a combination of a fixed and ad-valorem base fee with no performance element.
- 2.12 The Designated Fund is passively managed on a segregated basis.
- 2.13 The investment returns of the Main Fund, its underlying component portfolios and the Designated Fund are calculated quarterly by an external, third party professional performance measurement company appointed directly by the Council.
- 2.14 The Management Panel monitors the performance of the appointed external investments managers at each of its quarterly meetings. The performance of the specialist portfolios managed internally by Officers of the Fund is monitored annually by the Panel.

3) The Types of Investments to be Held

- 3.1 The Regulations require the Council to set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment. These maximum percentage limits are set out in an Appendix to this Statement, and are applicable only at the time the investment is made. The Regulations also require that not more than 5% of the total value of all investments of fund money be invested in entities which are connected with the authority, within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.
- 3.2 In addition to the Regulations, the Council has decided to further restrict the types of investment which the appointed external securities managers may hold and to restrict the type and extent of investment activity which they are permitted to undertake. These further detailed restrictions are extensive and are documented in a Schedule to each of the Investment Management Agreements.
- 3.3 Fund assets currently include a UK and overseas spread of equity, fixed interest bonds (including those issued by Governments, companies and other entities), index linked bonds, private equity, infrastructure and property. The Main Fund's external active multi-asset securities managers are permitted limited use of certain derivatives. The Fund supplements its investment income by participating in a Commission Recapture program.

4) The Balance between different Types of Investments

- 4.1 The Regulations require the Council to have regard to the diversification of its investments.
- 4.2 The overall bespoke benchmark of the Main Fund comprises a mix of different assets (broadly 75% real assets and 25% monetary assets) which is sufficient to provide adequate diversification for the Main Fund. The Fund's Annual Report and Accounts contains more detail on the overall Main Fund benchmark.
- 4.3 The strategic balance of investments takes account of the risk/return characteristics of each asset class and in particular the potential for enhanced long term returns from equity and the higher level of short term volatility associated with that asset class. In this context, risk in relation to any asset class is considered 'in the round' rather than being analysed into the specific components of risk (eg liquidity, foreign exchange, interest rate sensitivity etc). Allowance is also made for the benefits of diversification across the asset class mix within the Main Fund. The overall bespoke benchmark provides a reasonable long-term balance appropriate to the liabilities relevant to the Main Fund and its funding position.
- 4.4 For the Main Fund, tactical asset allocation is delegated to the appointed external multi-asset securities managers who must operate within asset class and country restrictions which are documented in a Schedule to the Investment Management Agreements.
- 4.5 The bespoke benchmark of the Designated Fund has also been specifically chosen in the context of the relevant liabilities and funding position.

5) Risk : Measurement and Management

- 5.1 The Management Panel recognises that risk is inherent in any investment activity. The overall approach is to seek to reduce risk to a minimum where it is possible to do so without compromising returns (eg in operational matters), and to limit risk to prudently acceptable levels otherwise (eg in investment matters).
- 5.2 Operational risk is minimised by :
 - Having custody of the Fund's financial assets provided by a regulated, external, third party, professional custodian appointed directly by the Council with control and liability issues thoroughly addressed in a Global Custody Agreement;
 - Having the deeds of direct property investments held securely by the Fund's Legal Section;
 - Documenting control and liability issues relating to the relationships with the appointed external investment managers in the Investment Management Agreements;
 - Having an external, third party, accounting provider independently maintain complete accounting records relating to the investment activity of the appointed external securities managers and to the entitlements (eg income) arising from the Fund's securities portfolios;

- Officers of the Council's Internal Audit and of the Fund's Investments Group receiving reports on and reviewing the internal operating procedures of the appointed external custodian, securities managers and accounting provider; and
- Subjecting internal investment management activity to close Internal Audit scrutiny.

5.3 Investment risk is constrained by :

- Diversifying across investment managers;
- Diversifying across types of investment;
- Restricting external appointed investment manager activity as documented in a Schedule to or in relevant Clauses of the Investment Management Agreements;
- Selecting appropriate investment benchmarks in order to control the risk that the assets will not be sufficient to meet the liabilities whilst also having a strong likelihood of achieving a good return;
- Taking appropriate internal and external professional advice on the investment activity of both the externally managed securities portfolios and of the internally managed portfolios;
- Quarterly, formal, Management Panel monitoring of asset allocation against the investment benchmarks and asset class restrictions; and
- Quarterly, formal, Management Panel monitoring of investment manager and overall Fund activity and performance.

5.4 Some risks lend themselves to being measured (eg using such concepts as 'Active Risk' and such techniques as 'Asset Liability Modelling') and where this is the case, the Fund employs the relevant approach to measurement. The Fund reviews new approaches to measurement as these continue to be developed.

6) The Expected Return on Investments

6.1 There is a broad expectation that in the longer term the return on equity will be greater than on other assets.

6.2 The overall Main Fund return is expected to be broadly in line with the overall bespoke benchmark. Over the last twenty years this benchmark has averaged a return which is comfortably ahead of both price and earnings inflation over the same period. However over any shorter period, such as one or five years, actual Main Fund returns may vary significantly from the benchmark and indeed benchmark returns may vary significantly from their long-term averages.

6.3 Over the long term appropriate to the liabilities of the Scheme it is expected that the investment returns of both the Main Fund and the Designated Fund will be at least in line with the assumptions underlying the actuarial valuations.

7) The Realisation of Investments

- 7.1 General investment principles require that issues of liquidity and marketability be considered in making any investment decision. Pension payments are expected to exceed employer and employee contributions by around £200m per year over the coming three years. During this period, investment income, outwith that which is automatically reinvested within pooled vehicles, is anticipated to generate around £300m per year of receipts to the Fund. Thus it is not expected that there will be any material need to realise investments in the near future other than to seek higher returns.
- 7.2 The vast majority of the Pension Fund's assets are readily marketable. However some investments, such as property, and more so private market assets, are less easy to realise in a timely manner. Such relative illiquidity is not considered to have any significant adverse consequences for the Fund. However, over the coming couple of years, Officers of the Fund will be investigating options for dealing with the deteriorating cash-flow position of the Fund.
- 7.3 The Council informs the appointed external investment managers of any projected need to withdraw funds in order to enable the investment managers to plan an orderly realisation of assets when this proves necessary.

8) The Fund's Approach to Pooling Investments

- 8.1 The Council has signed a memorandum of understanding with the administering authorities of the Merseyside Pension Fund and the West Yorkshire Pension Fund to create the Northern Pool ('the Pool') in order to meet the criteria for pooling investments released by Government on 25 November 2015.
- 8.2 The three funds submitted their pooling proposal to Government in July 2016 and the Department for Communities and Local Government provided its confirmation in January 2017 that it is content for the funds to proceed with the formation of the Pool as set out in the July 2016 proposal. A copy of the proposal is on GMPF's website.
- 8.3 Based on 31 March 2015 asset values, the total value of assets, across the three participating funds, to be invested in the Pool is £35.416 billion, which is in excess of the £25 billion criteria set by Government. All assets other than day-to-day cash used for scheme administration purposes will be invested via the Pool once transition is complete. Day-to-day cash is assumed to be 1% of total assets for each fund.
- 8.4 For the immediate future after inception of the Pool, the Fund's public-market assets will continue to be held in segregated mandates owned directly by the administering authority, but managed by the Pool. A single custodian will be appointed by the Pool, which will simplify the future consolidation of mandates.
- 8.5 All non-listed assets will be managed by the Pool from its formation. Subject to value for money requirements being fulfilled, new investments (i.e. those entered into after the formation of the Pool) in private market assets will be made on a shared ownership basis, via either collective investment vehicles or limited partnerships. Legacy private market assets (i.e. those entered into prior to the formation of the Pool) will be run-off on a segregated basis.

- 8.6 This approach will be reviewed periodically going forwards to ensure this continues to demonstrate value for money, particularly following any changes to funds' strategic asset allocations, pool management arrangements or taxation policy in the UK or internationally. The reviews will take place no less than every 3 years.
- 8.7 Once established it is intended that the Pool will provide the following services to the participating authorities on an in-house basis:
- Implement the strategic asset allocations of the participating authorities
 - Management of UK and Overseas equities and bonds
 - Selection of private equity, infrastructure & property funds
 - Direct UK infrastructure investment via a collective investment vehicle
 - Legal and accounting support
- 8.8 It is intended that the Pool will externally procure the following services:
- External fund management for certain mandates
 - Common custodian for Pool (plus depositaries & fund administrators where required for any pooled funds that are established for non-listed assets)
 - Investment management systems
 - Audit services
 - Performance analytics
 - Responsible Investment advisory services
 - Value for money reviews of structure
- 8.9 A Pool Oversight Board will be established to:
- i) provide oversight of the Pool; and
 - ii) act as a forum for the participating authorities to express the views of their pension committees.
- 8.10 The Oversight Board's primary roles are to ensure that the Pool is effectively implementing the participating authorities' strategic asset allocations and to oversee reporting to the participating authorities' pension committees.
- 8.11 The legal structure of the Oversight Board is expected to be a joint committee. There will be clear separation of duties between the Oversight Board and the Pool. The Oversight Board will not be undertaking any regulated activities.
- 8.12 The Pool's governing documentation will grant the Oversight Body and each administering authority certain powers regarding the operation of the Pool, which can be used to ensure the effective performance of the Pool.

- 8.13 Reporting processes of the Pool will include regular written reports on the performance of Pool investments to the Oversight Body, which will be discussed at formal meetings. Officers of the Pool will also report to and present directly to the administering authorities' pension committees and local pension boards as appropriate.
- 8.14 A report on the progress of asset transfers will be made to the Scheme Advisory Board annually.

9) Socially Responsible Investment

- 9.1 The Fund holds a general policy of not interfering in the day to day investment decisions of its investment managers. However, the Fund may choose to actively invest in or disinvest from companies for social, ethical or environmental reasons, so long as that does not risk material financial detriment to the Fund.
- 9.2 As a responsible investor, the Fund wishes to promote corporate social responsibility, good practice and improved company performance amongst all companies in which it invests. On environmental issues, the Fund wishes to promote and encourage compliance with its own "UK Environmental Investment Code". The Fund's appointed external securities managers are encouraged to operate a policy of constructive shareholder engagement with companies. The Fund is a 'Tier 1' signatory of the UK Stewardship Code.
- 9.3 The Fund endeavours to be a socially responsible investor wherever possible but does so within the duties placed upon it under statute and under general trust law principles to manage the Scheme in the best financial interests of the Scheme members and beneficiaries.
- 9.4 From time to time the Fund will pursue certain specific issues direct with investee companies, either individually or, more usually, collectively with other institutional investors via its membership of the 'Local Authority Pension Fund Forum', its membership of the 'Institutional Investors Group on Climate Change', as a signatory to the 'UN Principles for Responsible Investment' or by means of other ad-hoc groupings.
- 9.5 The Panel has approved an allocation to Local Investments, which has the twin aims of generating a commercial return and delivering a positive social impact. The Fund's Annual Report and Accounts contains more detail on the specific investments within this allocation.

10) The Exercise of Investment Rights

- 10.1 The exercise of rights which are not voting rights (eg dividend entitlements, rights issues etc) are delegated by the Council to the investment managers of the Pension Fund as part of their normal investment responsibilities.
- 10.2 The Fund wishes to exercise the voting rights attaching to its investments to promote and support good corporate governance principles. The Fund will report on its voting activity as part of its Annual Report.

- 10.3 The Fund requires the appointed external active securities managers to vote on behalf of the Fund at every opportunity in the UK and when reasonably practicable and commercially prudent overseas.
- 10.4 In casting the Fund's votes in the UK, the appointed external active securities managers are mandated to implement the Fund's bespoke "UK Voting Guidelines". Any overseas votes exercised must be cast in line with the spirit of the Guidelines.
- 10.5 The appointed external passive securities manager votes in respect of the Fund at every opportunity in the UK and in respect of companies in the vast majority of overseas markets except where practicalities are a significant obstacle.
- 10.6 In casting votes in respect of the Fund in the UK, the appointed external passive securities manager normally implements its own 'Voting Policy'. However the passive securities manager will vote in respect of the Fund according to the Fund's instructions on a case by case basis should the Fund so require.

11) Stocklending

- 11.1 The Fund itself has participated in a prudently structured Stocklending program via its Custodian since March 2003. However, the Fund suspended its Stocklending program between September 2008 and May 2011 in the wake of the 2008 financial crisis.
- 11.2 The Fund does not lend UK and US Equities and does not take Cash as collateral. The maximum volumes of stock "on loan" are set at a lower level than the Regulations permit. All loans must be pre-collateralised and be subject to recall upon demand.
- 11.3 Certain pooled vehicles within which the Fund invests may undertake an amount of Stocklending on behalf of the pooled vehicle investors. Where this occurs, the extent of the activity is disclosed by the pooled vehicle. The Fund considers this aspect of the pooled vehicle when making investment decisions.

Version 1.0

Adopted by the Pension Fund Management Panel for Tameside MBC as administering authority of the Greater Manchester Pension Fund: March 10, 2017

SJT/PFIG
February, 2017

APPENDIX TO INVESTMENT STRATEGY STATEMENT

TABLE OF LIMITS ON INVESTMENTS

Investment	Limit
1. Any single sub-underwriting contract	1%
2. All contributions to any single partnership	5%
3. All contributions to partnerships	30%
4. The sum of – a) all loans (but see paragraph 1 below); and b) any deposits with – i. any local authority; or ii. any body with power to issue a precept or requisition to a local authority, or to the expenses of which a local authority can be required to contribute which is an exempt person (within the meaning of the Financial Services and Markets Act 2000) in respect of accepting deposits as a result of an order made under section 38(1) of that Act	10%
5. All investments in unlisted securities of companies	10%
6. Any single holding (but see paragraphs 2 and 3 below)	10%
7. All deposits with any single bank, institution or person (other than the National Savings Bank)	10%
8. All sub-underwriting	15%
9. All investments in units or shares of the investments subject to the trusts of unit trust scheme managed by any one body (but see paragraph 3 below)	25%
10. All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by one body	25%
11. All investments in unit or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body (but see paragraph 3 below)	25%
12. Any single insurance contract	35%
13. All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements	25%

EXCEPTIONS TO LIMITS IN THE TABLE

1. The restriction in item 4 of the table does not apply to a Government loan.
2. The restriction in item 6 of the table does not apply if—
 - (a) the investment is made by an investment manager; and
 - (b) the single holding is in units or other shares of the investments subject to the trusts of any one unit trust scheme.
3. The restrictions in items 6, 9 and 11 do not apply to—
 - (a) National Savings Certificates;
 - (b) fixed-interest securities issued by Her Majesty's Government in the United Kingdom, the Government of Northern Ireland or the Government of the Isle of Man and registered in the United Kingdom or the Isle of Man or Treasury Bills;
 - (c) any securities the payment of interest on which is guaranteed by Her Majesty's Government in the United Kingdom or the Government of Northern Ireland; or
 - (d) a deposit with a relevant institution.

END OF APPENDIX (10/03/17)

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of the Local Government Act 1972.

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of the Local Government Act 1972.

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Agenda Item 8

Report To:	GMPF LOCAL PENSIONS BOARD
Date:	30 March 2017
Reporting Officer:	Sandra Stewart, Executive Director of Pensions Paddy Dowdall Assistant Executive Director of Pensions (Local Investments and Property)
Subject:	2016/2017 EXTERNAL AUDIT PLAN
Report Summary	A report of Grant Thornton is attached which sets out the external auditor's approach to the 2016/2017 audit
Recommendations:	That the Local Board note the contents of the report.
Policy Implications:	None.
Financial Implications: (Authorised by the Section 151 Officer)	The estimated audit fee for 2016/2017 is £62,000.
Legal Implications: (Authorised by the Solicitor to the Fund)	It is a requirement that the Fund's accounts are externally audited.
Risk Management:	In undertaking the audit, the auditor will identify the business risks and assess the Fund's own risk management and internal control environment. The auditor will also consider the financial performance and provide reassurance that the accounts provide a "true and fair view".
ACCESS TO INFORMATION:	NON-CONFIDENTIAL This report does not contain information which warrants its consideration in the absence of the Press or members of the public.
Background Papers:	For further information please contact Paddy Dowdall, Assistant Executive Director (Local Investments and Property) tel 0161 301 7140, email paddy.dowdall@tameside.gov.uk

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The Audit Plan for Greater Manchester Pension Fund

Year ended 31 March 2017

23 February 2017

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Greater Manchester Pension Fund
Guardsman Tony Downs House
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Manchester M43 6SF

23 February 2017

Dear Members

Audit Plan for Greater Manchester Pension Fund for the year ending 31 March 2017

This Audit Plan sets out for the benefit of those charged with governance (in the case of Greater Manchester Pension Fund, the Overview (Audit) Panel of Tameside MPF), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Fund and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to give an opinion on the Fund's financial statements.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements which give a true and fair view.

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We look forward to working with you during the course of the audit.

Yours sincerely

Mike Thomas

Engagement Lead

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Understanding your business and key developments

Developments

Investment Regulations

The new investment regulations came into force on 1 November 2016 and require administering authorities to publish new Investment Strategy Statements by 1st April 2017. The statement must be in accordance with guidance issued by the Secretary of State and include a variety of information. This will include the authority's assessment of the suitability of particular investments and types of investments, the authority's approach to risk, including the ways in which risks are to be measured and managed and the authority's approach to pooling investments, including the use of collective investment vehicles and shared services. These regulations also provide the Secretary of State with the power to intervene in the investment function of a fund if he/she is satisfied that the authority is failing to act in accordance with the regulations.

The GMPF Pension Fund has produced its Investments Strategy Statement, which will be approved by the 1st April 2017.

Triennial actuarial valuation of the fund

The results of the triennial review have now been reported. Overall the funding level has reduced by 2.5% from the date of the last valuation, but remains comparatively well funded at 92.5%. The schemes assets and liabilities have increased, on for the first time the valuation include the MoJ transferred Pensions.

Key challenges

Pooling Governance

Arrangements for pooling of investments continue to develop, with DCLG expecting administering authorities to be transferring liquid assets from April 2018. The structure and governance of these arrangements will need to be implemented before this date. These arrangements are likely to have a significant impact on how the investments are managed, who makes decisions and how investment activities are actioned and monitored. Although much of this operational responsibility will move to the investment pool operator, it is key that administering authorities (through Pension Committees and Pension Boards) continue to operate strong governance arrangements, particularly during the transition phase where funds are likely to have a mix of investment management arrangements.

The proposal for pooling GMPF investments with Merseyside Pension Fund and the West Yorkshire Superannuation Fund (for combined assets of over £35bn) was submitted in July 2016 supported by a joint Memorandum of Understanding between the three Funds.

A formal response from the Government to the 'Northern Pool' proposal has yet to be received, however plans continue to be developed for the Pool's governance structure and operating model.

Financial reporting changes

CIPFA Code of Practice 2016/17 (the Code)

The main change to the Code for Pension Funds is the extension of the fair value disclosures required under the Code from 2016/17.

The greatest impact is expected to be for those Funds holding directly owned property and/or shares and Level 3 investments. These are reflected in CIPFA's pension fund example accounts alongside further changes including an analysis of Investment Management expenses in line with CIPFA's Local Government Pension Scheme Management Costs guidance, a realignment of investment classifications, and an additional disclosure note covering remuneration of key management personnel which has been included in related party transactions.

Earlier shutdown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year. This will impact not only upon the production of the Fund accounts but also on earlier requests for information from employers within the Fund.

The Finance team confirm the financial statements will be prepared by 31st May and working papers will be provided to enable the audit visit to commence 12 June 2017.

We aim to provide our opinion by 31 July 2017

Our response

- We will discuss with you your progress in implementing the requirements of the new investment regulations, highlighting any areas of good practice or concern which we have identified.
- We will discuss your progress in implementing revised governance structures, and share our experiences gained nationally.
- We aim to complete all our substantive audit work of your financial statements by 7th July 2017.
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the changes in the 2016/17 Code

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Fund. In line with previous years, we have calculated financial statements materiality based on a proportion of net assets for the Fund. For purposes of planning the audit we have determined overall materiality to be £173,246k (being 1% of net assets based on previous audited accounts). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £8,662k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following items where separate materiality levels are appropriate:

Balance/transaction/disclosure	Explanation	Materiality level
Related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Audit procedures
<p>The revenue cycle includes fraudulent transactions</p> <p>Page 104</p>	<p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Greater Manchester Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The split of responsibilities between the Pension Fund, its Fund Managers, Custodian and HSBC provides a clear separation of duties reducing the risks relating to investment income • The culture and ethical frameworks of local authorities, including the Pension Funds Administering Authority (Tameside MBC), mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Greater Manchester Pension Fund.</p>
<p>Management over-ride of controls</p>	<p>Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of journal environment <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Walkthrough of journal entry process and selection of unusual journal entries for testing back to supporting documentation • Testing of Year end Journals • Review of unusual significant transactions

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

Significant risks identified (continued)

Significant risk	Description	Audit procedures
<p>Level 3 Investments – Fair value measurements priced using inputs not based on observable market data not correct. (Valuation is incorrect)</p>	<p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters.</p> <p>Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> Updated our understanding of the Pension Fund's procedures for investments <p>Further work planned:</p> <ul style="list-style-type: none"> For indirect property investments, test valuations to valuation reports and/or other supporting documentation. For a sample of private equity investments, test valuations to Fund Manager valuations and/or by obtaining and reviewing the audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31st March with reference to known movements in the intervening period. Review the qualifications of the fund managers as experts to value the level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached. To review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments.

Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Description of risk	Audit procedures
Investment Income Page 106	Investment activity not valid. Investment income not accurate. (Accuracy)	Work completed to date: <ul style="list-style-type: none"> Updated our understanding of the Pension Fund's procedures for investments Further work planned: <ul style="list-style-type: none"> Perform walkthrough test of controls identified For investments held by fund managers, review reconciliation between custodian (JP Morgan), fund managers, HSBC and the Pension Fund and follow up any significant variance and gain appropriate explanations/evidence for these. For other investments,(e.g. direct property), agree a sample to supporting documentation.
Investment purchases and sales	Investment activity not valid. Investment valuation not correct.	Work completed to date: <ul style="list-style-type: none"> Updated our understanding of the Pension Fund's procedures for investments Further work planned: <ul style="list-style-type: none"> Perform walkthrough test of controls identified For investments held by fund managers, review reconciliation between JP Morgan, fund managers, HSBC and the Pension Fund and follow up any significant variance and gain appropriate explanations/evidence for these. For other investments,(e.g. direct property), agree a sample to supporting documentation for rental income

Other risks identified (continued)

Reasonably possible risks	Description of risk	Audit procedures
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	<p>Work completed to date:</p> <ul style="list-style-type: none"> Updated our understanding of the Pension Fund's procedures for investments <p>Further work planned:</p> <ul style="list-style-type: none"> Perform walkthrough test of controls identified We will review the reconciliation of information provided by the fund managers, the custodian, the Accounting partner (HSBC) and the Pension Fund's own records and seek explanations for variances.. For direct property investments agree values in total to valuer's report and undertake steps to gain reliance on the valuer as an expert.
Contributions	Recorded contributions not correct (Occurrence)	<p>Work completed to date:</p> <ul style="list-style-type: none"> Updated our understanding of the Pension Fund's arrangements for recording contributions <p>Further work planned:</p> <ul style="list-style-type: none"> Perform walkthrough tests of controls identified Test a sample of contributions to source data to gain assurance over their accuracy and occurrence. Rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	<p>Work completed to date:</p> <p>Updated our understanding of the Pension Fund's arrangements for gaining assurance over benefit payments.</p> <p>Further work planned:</p> <ul style="list-style-type: none"> Perform walkthrough test of controls identified Controls testing over, completeness, accuracy and occurrence of benefit payments, Test a sample of individual pensions in payment by reference to member files. We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.

Other risks identified (continued)

Reasonably possible risks	Description of risk	Audit procedures
Member Data	Member data not correct. (Rights and Obligations)	<p>Work completed to date:</p> <ul style="list-style-type: none"> Updated our understanding of the Pension Fund's arrangements for maintaining member data. <p>Further work planned:</p> <ul style="list-style-type: none"> Perform walkthrough test of the controls identified Review of reconciliation of member numbers Sample testing of changes to member data made during the year to source documentation

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

Other risks identified (continued)

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous sections but will include:

- Management expenses
- Cash deposits
- Level 1 investments
- Actuarial Valuation and Actuarial Present Value of Promised Retirement Benefits
- Financial Instruments

Other audit responsibilities

- We will read the Narrative Statement within 'Tameside MBC' statement of accounts and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will read the Pension Fund Annual Report and ensure that it is consistent with the Pension Fund Accounts included within Tameside MBC statement of accounts.

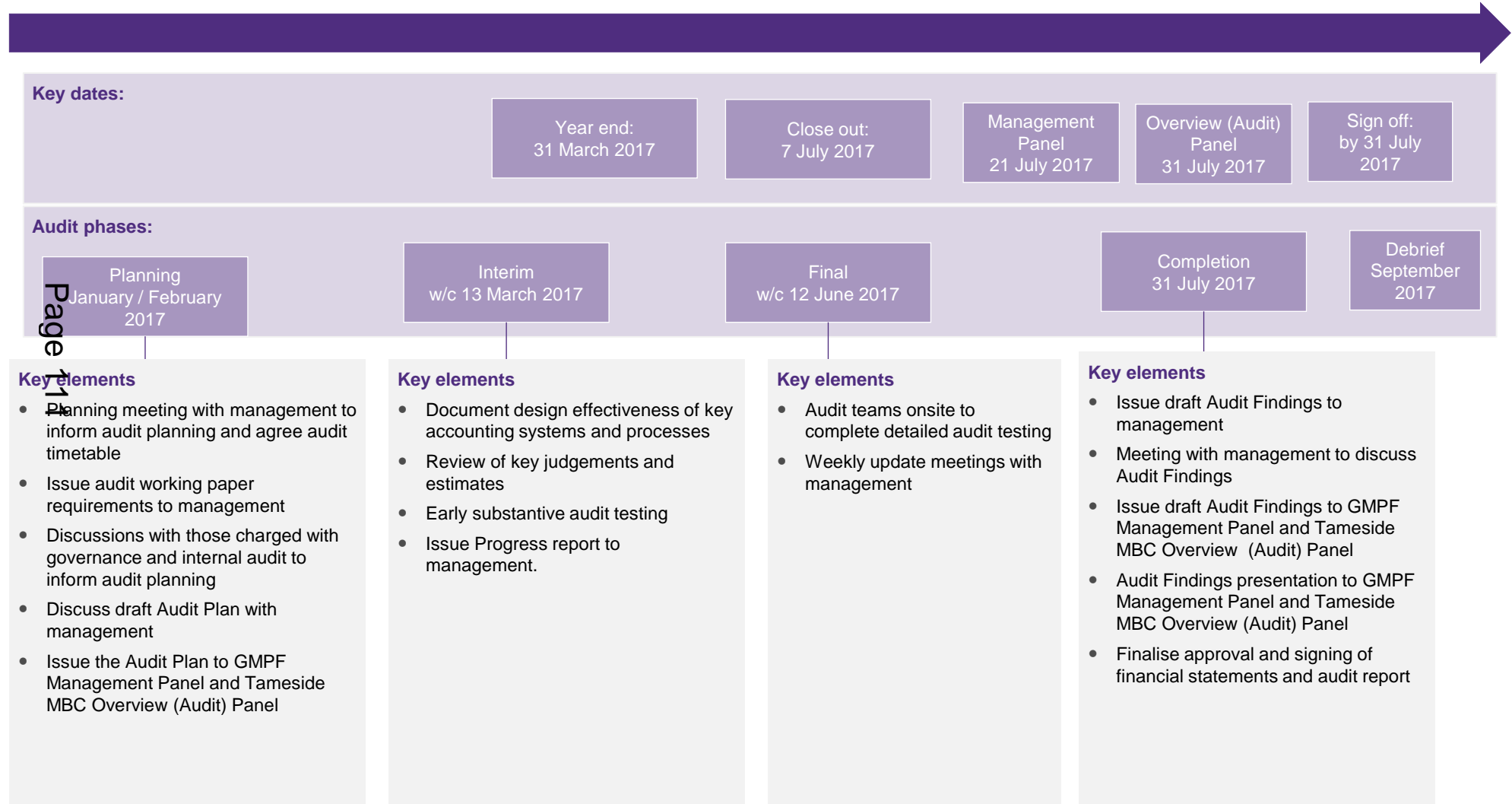
Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
Internal audit Page 110	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention</p> <p>We have also reviewed internal audit's work on the Fund's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Fund and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Fund's financial statements</p>

The audit cycle

The audit timeline



Audit Fees

Fees

	£
Pension fund audit	56,341
IAS 19 fee	5,996
Total audit fees (excluding VAT)	62,337

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Fund and its activities, have not changed significantly
- The Fund will make available management and accounting staff to help us locate information and to provide explanations
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Fees for other services

Fees for other services are detailed on the following page, reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency

Independence and non-audit services

Ethical Standards and ISA (UK and Ireland) 260 require us to give you timely disclosure of matters relating to our independence. In this context, we disclose the following to you:

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to Greater Manchester Pension Fund. The following audit related and non-audit services were identified for the Fund for 2016/17:

Fees for other services to GMPF

Service	Fees £	Planned outputs
Audit related		
None	Nil	
Non-audit related		
None	Nil	

Grant Thornton UK LLP also provides audit services to:

- Matrix Homes Limited Partnership for audit and accounts fees totalling £11,500*
- Greater Manchester and London Infrastructure Limited Partnership for audit and accounts fees of £9,600*

These are separate engagements outside the remit of Public Sector Audit Appointments Limited.

* based on previous years audited accounts

The amounts detailed are fees agreed to-date for audit related and non-audit services (to be) undertaken by Grant Thornton UK LLP (and Grant Thornton International Limited network member Firms) in the current financial year. Full details of all fees charged for audit and non-audit services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

Should any non-audit services be proposed we will ensure these services are consistent with the Administering Authority's policy on the allotment of non-audit work to your auditors .

Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Fund.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Fund's key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

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