

GREATER MANCHESTER PENSION FUND

LOCAL PENSIONS BOARD

1 August 2016

Commenced: 3.00pm

Terminated: 5.00pm

Present:	Councillor Fairfoull (Chair)	Employer Representative
	Richard Paver	Employer Representative
	Jayne Hammond	Employer Representative
	Paul Taylor	Employer Representative
	David Schofield	Employee Representative
	Chris Goodwin	Employee Representative
	Pat Catterall	Employee Representative

Apologies for absence: **Councillor Cooper, Mark Rayner and Catherine Lloyd**

1. DECLARATIONS OF INTEREST

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

2. MINUTES

The Minutes of the meeting of the Local Pensions Board held on 30 March 2016, having been circulated, were signed by the Chair as a correct record.

3. FUNDING AND INVESTMENT TRAINING

The Assistant Executive Director, Funding and Business Development and the Assistant Executive Director Pension Fund Investments, delivered a presentation, providing information/guidance on funding and investment processes and principles, including:

- Purpose of the Actuarial Valuation process;
- How contribution rates are set;
- The Funding Strategy Statement;
- Statement of Investment Principles; and
- Role of the Custodian.

4. GMPF MANAGEMENT PANEL UPDATE

The Assistant Executive Director, Funding and Business Development submitted a report providing an update for Board members on some of the key agenda items from the meeting of GMPF Management/Advisory Panel held on 1 July 2016, as follows:

Pooling of Assets

It was reported that the progression of the Government's proposals for the pooling of assets was a key area of work for the Panel, Chair of the Fund and Officers. The final submission from the Pool had been made to Government on 15 July 2016 in line with the timetable and a separate progress report would be presented to the Board later in the agenda.

Actuarial Valuation

Members were advised that the next actuarial valuation was due to be undertaken as at 31 March 2016, with revised employer contribution rates to take effect from 1 April 2017. This was a major task for all areas of the Pension Service and it was time critical for both employers and the administering authority. Progress would be monitored by the Employer Funding and Viability Working Group with the valuation being the main item at its forthcoming meetings. Updates would be presented to Panel meetings throughout the year. A separate progress report would be presented to the Board later in the agenda.

As reported at previous Panel meetings, the Employer Funding and Viability Working Group was giving consideration to the case for giving employers a discount for paying employer contributions in advance. This matter had also been discussed with local authority treasurers, several of whom had expressed interest in participating. Discussions were progressing with the local authorities' auditors on potential accounting requirements regarding this matter.

GMPVF – One St Peter's Square

The Assistant Executive Director, Property and Local Investments, reported that the sale of One St Peter's Square was progressing. There had been some delay following the result of the EU Referendum and progress would be reported at the Property Working Group and future Panel meetings.

Climate Change

It was reported that, on 18 May 2016, 'Fossil Free Greater Manchester' (FFGM) published an open letter to the Chair of the Panel. The letter contained questions to the Chair of the Panel, following a Tameside Radio interview with the Chair and a member of FFGM. The questions related to the Fund's holding in coal mining companies, and the fund's engagement strategy with fossil fuel companies.

On 6 June 2016, the chair of the panel replied to the FFGM letter. The reply reiterated, amongst other things, that the fund had no plans to divest from fossil fuel companies at this time.

Copies of the letter and the reply were attached to the report.

GMPF & LFPA Infrastructure LLP (GLIL)

Members were informed that GLIL continued to proactively pursue a number of infrastructure investment opportunities across a variety of sub-sectors within the UK, achieving full investment Committee approval for two deals in 2016 so far.

One approval was for a stake in one of Europe's largest onshore wind farms and the other was for anaerobic waste digestion plants. There had been some bids that had not been successful including a minority stake in a regulated water utility.

LGPS Update

Members were updated in respect of a DCLG consultation about possible changes to the Scheme Regulations and Academy Schools.

RESOLVED

That the content of the report be noted.

5. POOLING OF ASSETS

The Assistant Executive Director, Funding and Business Development, submitted a report, which provided an update on recent developments relating to the proposals for pooling investments across the LGPS in England and Wales and the recent activities of GMPF in this area.

Members were reminded that, as reported at previous meetings of the Panel and the Policy and Development Working Group, discussions regarding collaboration had been ongoing on a regular basis with a number of other, predominantly northern based LGPS funds. During this process, the Funds involved in discussions had developed a Memorandum of Understanding setting out the operation of a 'Collective Asset Pool' and the proposed steps in its formation. The Memorandum of Understanding had been signed by GMPF, Merseyside Pension Fund (MPF) and West Yorkshire Pension Fund (WYPF).

It was reported that the 3 Funds had combined assets of around £35 billion, therefore clearly meeting the scale criteria (in excess of £25 billion).

Members were informed that there were currently 8 proposed pools, made up as follows:

- Northern Powerhouse;
- London CIV (the 33 London Boroughs) – this has already been established;
- South West Funds plus Environment Agency ('Project Brunel');
- 'ACCESS' (Most of the south East County Council Funds);
- Midlands;
- 'Border to Coast' (The remaining northern funds plus a small number of others);
- Wales; and
- LPFA/Lancashire (plus potentially Berkshire) ('the Local Pensions Partnership – LLP').

Members were informed that Government had previously stated that it was looking for around 6 pools, each of at least £25 billion. The Wales and LPFA/Lancashire pools do not currently meet the Government's scale criteria. However, the Welsh pool had been granted an exemption from the scale criteria. The Northern Pool had links with the pool of LPFA and Lancashire (£10 billion or £12 billion with Berkshire) via GMPF's joint infrastructure vehicle with LPFA. The intention was for the Northern Pool to work alongside LPP on infrastructure investment going forward.

In late March 2016, all pools received a response from Government to their February submissions. The Northern Pool's response was appended to the report. The response confirmed that the Northern pool clearly met the scale criteria.

In respect of the progress of the Northern Pool, it was explained that, for the foreseeable future, the funds in the Northern Pool would be allocating considerable resource towards completing the July submission to Government and creating the pooling arrangements.

Five workstreams had been created to progress the various aspects, as follows:

- Asset Pools;
- Governance;
- Cost Savings;
- Infrastructure and Property; and
- Other alternative assets.

A particularly important task prior to the July submission was to determine the most appropriate operating model for the management of the Pool's assets. The main options for consideration were detailed in the report.

Members were informed that a 'cross-pool' group with representation from each of the individual pools had been created. The purpose of this group was to share best practice amongst the pools and to liaise effectively with the LGA pensions team and the civil servants at DCLG and HMT. The group would also play a role in developing the capability and capacity in infrastructure investment across the LGPS in England and Wales. The cross-pool group was helping Government to develop a standard template for the July submissions. This template effectively removed the requirement for Funds to submit an individual submission in addition to the joint pool submission, although each pool would still be able to submit feedback to Government on particular aspects of pooling. However, the Director of Governance, Resources and Pensions, commented that there

was no political oversight of the cross pool and this was something that needed to be reviewed to ensure democratic deficit was addressed. Each pool was expected to be asked to make presentations to the Government assessment panel in advance of the July submission. The Northern Pool's presentation had taken place on 16 June 2016.

In respect of developing capacity and capability in infrastructure, it was reported that general consensus across the LGPS was that improved access to infrastructure investment and lower cost was most likely to be achieved through a national platform accessible to all the LGPS asset pools. The cross-pool group was considering how the national platform could be established and whether it built on or ran alongside, any existing arrangements.

Ahead of the pooling agenda, GMPF, which had a long track record of investing in infrastructure funds, had developed capacity to invest in direct infrastructure opportunities through its joint venture with the London Pension Fund Authority (LPFA). The joint venture partnership was known as 'GLIL'. This vehicle had been designed to be extended to accommodate other Funds and could form part of the national solution.

The report concluded that, as discussed at previous Panel meetings, one of the requirements of the Government's pooling guidance was that the Pool management team would report in the first instance to an oversight board consisting of a small number of representatives of the 3 participating funds. These were expected to be current Panel members.

This oversight board would act as a forum in which the views of the Funds' pension committees on the performance and future direction of the Pool could be expressed and acted upon.

There was considerable work to be done in establishing the Pool and the timescales for obtaining Financial Conduct Authority (FCA) authorisation could be particularly lengthy. In order to ensure the Pool was fully operational by the deadline of 1 April 2018, it was possible that the oversight board may need to be established in shadow form over the next few months.

As previously stated, the final submission from the Pool had been made to Government on 15 July 2016 and feedback was awaited and further information on this would be submitted to the next meeting of the Board.

RESOLVED

That the content of the report be noted.

6. ACTUARIAL VALUATION

Consideration was given to a report and presentation of the Assistant Executive Director of Pensions, Funding and Business Development, which explained that the triennial valuation of the Fund was due as at 31 March 2016, with formal completion of the process required no later than 31 March 2017.

The Assistant Executive Director gave details of the valuation timetable and outlined factors influencing the valuation outcome, including;

- key financial assumptions;
- impact of change to assumptions;
- market conditions;
- discount rate assumption;
- salary growth assumption;
- inflation – the RPI/CPI gap;
- differences in longevity;
- calculating contribution rates; and
- deficit contributions.

The report summarised that the funding level was similar to that of 2013, however falling active membership made repaying the deficit more challenging. Contributions would remain stable for main employers, however some employers would see an increase in contributions.

RESOLVED

That the content of the report be noted.

7. 2015/16 EXTERNAL AUDIT PLAN

Consideration was given to a report of the External Auditor, Grant Thornton, which set out their approach to the 2015/16 audit. The report had previously been considered by the Employer Funding Working Group and approved by the Management Panel.

Members sought clarification of any issues arising from the report. The Assistant Executive Director – Local Investments and Property, explained that he was due to meet with Grant Thornton in August ahead of formal agreement of the Plan at an Urgent Matters meeting of the Management Panel in early September and that he was not anticipating any major concerns.

Members further requested that the Annual Governance Statement be submitted to the next meeting of the Board.

RESOLVED

- (i) That the content of the External Audit Plan be noted; and**
- (ii) That the Annual Governance Statement be submitted to the next meeting of the Board.**

8. RISK MANAGEMENT AND AUDIT SERVICES – ANNUAL REPORT 2015/16

The Head of Risk Management and Audit Services submitted a report summarising the work performed by the Service Unit and provided assurances as to the adequacy of the Pension Fund's systems of internal control.

Key achievements of the service provided to the Pension Fund for 2015/16 were detailed.

The full year position of the audit plan was appended to the report. Actual days spent as at 31 March 2016 were 254.8 which equated to 102% and 94% of planned audits were completed in those days.

It was reported that audits were undertaken on a number of the financial systems used by the Pension Fund. Where issues were identified as part of the systems audit work, action plans were agreed with management and where not already done, these would be followed up in due course:-

- Pensions Benefits Payable;
- Contribution Income; and
- Creditors.

Details were also given of post audit reviews carried out and it was reported that assurance had been given that systems were now operating more effectively and that the majority of recommendations made had been implemented. No significant recommendations were outstanding and Internal Audit was satisfied with the reasons put forward by management.

With regard to anti-fraud work and irregularity investigations, Board members were informed of one potential fraud case notified to the Internal Audit team during the year, which was an allegation in respect of a pension in payment. The allegation was investigated and shown to be unfounded.

In respect of the National Fraud Initiative, it was reported that work had continued during 2015/16 on the matches identified from the NFI 2014 Data Matching Exercise, which became available at the end of January 2015 and the results were summarised in the report.

With regard to Risk Management and Insurance, it was explained that resources had been directed towards training during the last few months of 2015/16 to ensure that all staff completed the On-Line Data Protection at Work and Responsible for Information E-tutorials via the Virtual College Training System. Further training was being reviewed by the Information Governance Group and would be rolled out to appropriate staff once approved.

Key Performance Indicators for 2015/16 applicable to the Pension Fund were detailed in the report and it was reported that all four performance indicators had been achieved.

The report concluded that, overall, the Head of Risk Management and Audit provided assurance that the Pension Fund's governance, risk and control framework was generally sound and operated reasonably consistently. No significant control issues were identified in the year. This opinion was based on the work of the Risk Management and Audit Service Unit carried out between April 2015 and March 2016.

RESOLVED

That the content of the report be noted.

9. RISK MANAGEMENT AND AUDIT SERVICES 2016/17

A report was submitted by the Head of Risk Management and Audit Services summarising the work of the Internal Audit Service for the period April – June 2016.

Details were given of final and draft reports issued during the period.

Details were also given of audits in progress as follows:

- Unitisation;
- Visit to the Property Fund Manager ;
- Visits to Contributing Bodies; and
- Risk Management Review.

Information was provided of other work carried out in the period, including:

- Advice – Year End Return Compliance checklist for Employers, Signing Off a Service Charge account (GMPVF), Starters/Leavers late notification query; Compliance with The Pensions Regulator Code of Practice 14;
- Irregularities – none in this quarter.

In respect of the Internal Audit Plan 2016/17, details of the days spent against the plan to date, were appended to the report.

In respect of one of the final reports issued – Visits to Contributing Bodies, Board members raised concerns in respect of instances of the incorrect calculation and application of Assumed Pensionable Pay (APP), identified at all three employers visited.

It was confirmed that although small in scale, further guidance had been issued to employers via the Employers Bulletin in respect of this matter and it was suggested that an article be published in the next edition of the Pension Power magazine. It was agreed that a further update be provided to the next meeting of the Board.

RESOLVED

- (i) That the content of the report be noted;
- (ii) That an update be provided in respect of instances of the incorrect calculation and application of Assumed Pensionable Pay to the next meeting of the Board.

CHAIR