ITEM NO: 6(e)

GREATER MANCHESTER PENSION FUND

EMPLOYER FUNDING VIABILITY WORKING GROUP

7 August 2015

Commenced: 9.30am **Terminated: 11.15am**

Present:	**Councillor J Fitzpatrick (Chair)**	
	Councillor Cooney	
	Councillor Cooper	
	Councillor C Francis	
	Councillor Mitchell	
	Mr Llewellyn	**UNITE**
	Peter Morris	**Executive Director**
	Euan Miller	**Assistant Executive Director – Funding and Business Development**
	Steven Taylor	**Assistant Executive Director – Investments**
	Tracey Boyle	**Head of Pension Fund Accountancy**
	John Douglas	**Pensions Accountant**
	Marianne Dixon	**Grant Thornton**
Apologies for absence:	**Councillor Dean, Councillor Patrick, Mr Allsop and Ms Herbert**	

1. DECLARATIONS OF INTEREST

There were no declarations of interest submitted by Members of the Working Group.

2. MINUTES

The Minutes of the proceedings of the meeting of the Employer Funding Viability Working Group held on 24 April 2015 were approved as a correct record.

3. GMPF STATEMENT OF ACCOUNTS 2014-15 GOVERNANCE ARRANGEMENTS AND UPDATE

The Executive Director of Pensions submitted a report, copies of which had been circulated, providing an update on the governance arrangements for approval of the 2014/15 accounts for the Greater Manchester Pension Fund (the Fund). Attention was drawn to the change in the presentation of the Fund management costs within the accounts, key assumptions for estimates used to value Fund investments and the pre-audit simplified accounts.

The Head of Pensions Accountancy advised that the Working Group had responsibility for the oversight of key financial matters for the Fund including budget monitoring, collection of debts and financial reporting. The provisional timetable for the approval of the accounts and consideration of audit reports was outlined with the audit process needing to be completed before the end of September 2015 following sign off by the s151 officer of the Council.

Members were informed that there had been changes in the presentation of accounts in 2014/15 due to the partial adoption of CIPFA's guidelines on accounting for management costs. The proposed approach was for the Fund to adopt a phased implementation of the guidelines; this approach is supported by the Fund's auditors, Grant Thornton. The objective of the changes was to improve the transparency of transaction costs on investments and costs deducted from pooled investment vehicles.

It was reported that the Working Group was expected to review the reasonableness of significant assumptions used in the production of the accounts. The notes to the accounts were explained and discussed and attention focused on the basis of the assumptions underpinning the estimates used. A simplified summary of accounts was provided and explanation given of the key financial movements during the financial year to 31 March 2015, taken from the pre-audit financial accounts.

The Working Group heard that pension auto-enrolment had kept active Fund member numbers higher than expected; however, the forecast was for numbers of active members to begin to decrease within the next 12 months and to continue to decrease for up to three years.

RECOMMENDED

(1) That the assumptions for estimates used in the Statement of Accounts 2014/15 be approved.
(2) That the report be noted.

4. 2014/15 EXTERNAL AUDIT PLAN

The Working Group welcomed Marianne Dixon, Grant Thornton, who attended the meeting to present the external auditor's approach and timetable for the 2014/15 audit, the representations required from the Fund and the reporting process to the Working Group.

The report was outlined including the challenges and opportunities that LGPS funds face in terms of new governance arrangements, compliance with the requirements of the Pensions Regulator, future LGPS structural reform and local government outsourcing. It was reported that the key developments in the year for the Fund were the implementation of the LGPS 2014 Scheme, financial pressures on Fund investment strategy, the take on of Ministry of Justice (MoJ) Probation staff and pensioners and increased reporting transparency on Fund management costs.

The audit approach and significant risks identified were discussed. It was reported that fraudulent transactions were a low risk to the Fund and the MoJ Probation transfer had been tested with no issues arising. Other risks included management over-ride of controls, to which a written assurance from the Chair of the Working Group and the Executive Director of Pensions would be provided in due course, incorrect valuation of level 3 investments (investments where a significant amount of judgement was needed to value them), incorrect contributions received, incorrect benefit payments and inaccurate member data.

It was reported that there was one Local Authority with outstanding annual postings and contribution return to check. The relevant Local Authority had been contacted to provide this information. The majority of the audit work had been completed with further work to be carried out on the disclosure notes in the Statement of Accounts. The Fund was commended on a successful year from an audit perspective which had been exemplified by the MoJ Probation transfer.

RECOMMENDED
That the report be noted.

5. GMPF ADMINISTRATION EXPENDITURE MONITORING STATEMENT FOR THE FINANCIAL YEAR 2014/15

The Executive Director of Pensions submitted a report, copies of which had been circulated, comparing the administration expenses budget against the actual results for the 12 months to March 2015.

It was reported that actual expenditure had been £18,217,000 which was £501,000 less than the estimate. It was explained that this was due to underspend in recruitment implementation, lower than predicted staffing costs and higher than expected commission recapture.

RECOMMENDED
That the report be noted.

6. GMPF ADMINISTRATION EXPENDITURE MONITORING STATEMENT FOR THE 2 MONTHS TO MAY 2015

The Executive Director of Pensions submitted a report, copies of which had been circulated, comparing the administration expenses budget against the actual results for the 2 months to May 2015.

It was reported that actual expenditure had been £10,000 less than the estimate of £4,037,000, taken from the budget forecast which had been prepared in November 2014, with a year-end overspend projection of £202,000. Revised figures and a budget forecast for 2015/16 would be brought to a future meeting of the Working Group.

RECOMMENDED
That the content of the report be noted.

7. EMPLOYER CESSATIONS

The Executive Director of Pensions submitted a report, copies of which had been circulated, detailing the increase in the number of Fund employers ceasing. Unexpected employer cessation, for example due to employer failure, can create administrative complexity and had the potential to adversely impact scheme funding.

It was reported that recent unexpected employer cessation events had illustrated the importance of ensuring that appropriate protections were in place when employers were admitted to the Fund and that any existing risks were closely monitored. The Working Group heard that there was an expectation for the numbers of employer failures to increase further, particularly amongst the Fund's smaller employers, as Local Government spending continued to reduce and the financial support that Local Authorities provide to many smaller employers declines.

Three examples of employer failure within the Fund were outlined to Members alongside other examples of unexpected employer exits such as employers ceasing to participate and termination of admission agreements.

RECOMMENDED
That the content of the report be noted.

8. BESPOKE INVESTMENT STRATEGIES

The Executive Director of Pensions submitted a report, copies of which had been circulated, detailing one of the Fund's key tasks for the year - to develop the capability and capacity to implement employer specific investment strategies, as set out in the business plan presented to Panel in March 2015 and to a previous meeting of the Working Group.

The report outlined that the Fund had been working with some of the larger employers with mature liability profiles to assess whether an investment strategy different to the GMPF Main Fund would be appropriate and to explore the practical ways of achieving a more bespoke strategy with the resources available. A summary of discussions with Transport for Greater Manchester and Greater Manchester Waste Disposal Authority were provided.

It was reported that a particular investment being considered was the investment in a pooled fund which held inflation swap contracts with financial intermediaries such as banks. Under the inflation swap contracts the pooled fund paid a series of fixed payments and received a series of payments which varied in line with the rate of inflation. This provided investors with protection against higher than expected levels of inflation, without any exposure to movements in interest rates.

It was explained that for every 1% change in inflation, the value of the Fund would change by approximately 3%. This 3 to 1 "gearing" meant that the Fund could obtain the desired amount of inflation protection by allocating a lower amount of capital, however it had the potential to increase the risks involved.

The Working Group was notified that the Fund had not invested in this type of asset before and in order to make an investment it was important that Members understood the product and the potential risks. The Working Group was informed that a report would be brought to a future working group meeting to explain this option in further detail.

RECOMMENDED
That the content of the report be noted.

9. PENSIONS OMBUDSMAN RULING ON ACADEMY CONVERSION

The Executive Director of Pensions submitted a report, copies of which had been circulated, detailing the dismissal of a Pensions Ombudsman complaint from an academy school in the East Riding Pension Fund in relation to the opening funding position and contribution rate it had been allocated by its administering authority. The implications and learning points for GMPF arising from this verdict were discussed.

RECOMMENDED
That the content of the report be noted.

10. GMPF EMPLOYER AND PENSIONS OVERPAYMENT RELATED AGED DEBT AS AT 19 JUNE 2015

The Executive Director of Pensions submitted a report, copies of which had been circulated, summarising the employer and pensions overpayment related aged debt for the Fund as at 19 June 2015.

It was reported that actual debt outstanding was £7.232million which was predicted to significantly reduce by the next reporting period due to a large payment which had recently been received by the Fund. The ten highest value invoices within the employer's category were outlined and discussed as per Appendix A of the report.

RECOMMENDED
That the content of the report be noted.

11. ACCOUNTING FOR PENSION COSTS – IAS19

The Executive Director of Pensions submitted a report, copies of which had been circulated, detailing the outcome of this year's Local Authority accounting reports that showed a small decrease in funding levels assessed in accordance with the accounting standard IAS 19. The reasons for the changes in deficit levels were outlined to the Working Group.

RECOMMENDED
That the content of the report be noted.