GREATER MANCHESTER PENSION FUND - EMPLOYER FUNDING VIABILITY WORKING GROUP

28 July 2017

Commenced: 10.30 am **Terminated:** 11.05 am

Present:	Councillors J Fitzpatrick (Chair), Patrick, Jabbar, Mitchell, Mr Flatley and Mr Llewellyn	
In Attendance:	Sandra Stewart	Director of Pensions
	Paddy Dowdall	Assistant Director of Pensions (Local Investments and Property)
	Euan Miller	Assistant Director of Pensions (Funding and Business Development)
	Tracey Boyle	Head of Pensions Accountancy
	Emma Mayall	Pensions Policy Manager
Apologies for Absence:	Councillor Cooney, Mr Allsop and Ms Herbert	

1. DECLARATIONS OF INTEREST

There were no declarations of interest.

2. MINUTES

The Minutes of the Employer Funding Viability Working Group meeting held on 21 April 2017 were approved as a correct record.

3. GMPF AGED DEBT AS AT 19 JUNE 2017

The Assistant Director of Pensions (Local Investments and Property) submitted a report summarising the aged debt for the Fund as at 19 June 2017. Aged debt typically consisted of rent arrears from tenants of GMPF property, outstanding contributions and overpayment of pensions to members, which had not yet been repaid.

A summary of debt across the four separate areas of Property Main Fund, Property Venture Fund, Employer Related and Overpayment of Pensions was detailed. A ‘red’ status was currently in place for Employer Related aged debt as the outstanding amount was above the agreed threshold of £100,000. The largest component of Employer Related aged debt was unpaid contributions, much of which was in respect of strain costs associated with early retirement or member transfer. It also included fees for the production of actuarial work and administration fees charged to newly admitted bodies to the fund.

The report detailed all aged debt (31 days and over) as at 19 June 2017 alongside comparison to the previous quarter; total aged debt was £3.301 million compared to £3.867 million at 19 March 2017. The key trends were highlighted; property aged debt had decreased from £0.316 million in March 2017 to £0.309 million at June 2017 and Employer and Overpaid Pension Aged Debt had decreased from £3.552 million to £2.992 million. The bulk of Employer debt related to invoices that had been issued in respect of early retirement strain costs.

For the 12 months to June 2017 4.6% of debt was outstanding, the proportion of the debt considered at risk of non-payment was 0.4%. Tables which showed the highest value invoices within the Employers, Property Main Fund and the Property Venture Fund category were appended to the report and were discussed with the Group.

RECOMMENDED:
That the report be noted.

4. BUS SERVICES ACT AND RELATED MATTERS

The Assistant Director of Pensions (Funding and Business Development) submitted a report providing an overview of the Bus Services Act 2017 and its potential implications for GMPF.

It was reported that the 2014 Greater Manchester Agreement between the Greater Manchester Combined Authority and Government contained a commitment from the Government to introduce a Buses Bill in order to enable the directly elected Greater Manchester Mayor to decide whether to use the bus franchising powers. The Bus Services Act 2017 came into force on 27 June 2017 and enabled the Greater Manchester Mayor to decide whether, following consultation, to use the bus franchising powers in the Act. Franchising was intended to increase competition, improve standards and provide greater value for money.

The legislation changes could have an impact on GMPF as two bus companies, who currently operated most of the bus services in Greater Manchester, were two of the Fund's largest private-sector employers. It was important that the pensions implications arising on any transfer of employees, which may occur, was considered when defining the terms of the franchise agreements and officers would raise this with officers at Transport for Greater Manchester.

It was further reported that discussions were ongoing to admit two further employers, along with accrued assets and liabilities, into the Fund (Project Magpie). The arrangements were summarised in Table 1 of the report and detailed the estimated assets and liabilities' as at 31 March 2016. It was anticipated that the date of the transfer would be 1 November 2017 and the assets transferred in tranches thereafter.

RECOMMENDED:
That the report be noted.

5. GMPF ADMINISTRATION EXPENDITURE MONITORING STATEMENT FOR THE 2 MONTHS TO MAY 2017

The Assistant Director of Pensions (Local Investments and Property) submitted a report comparing the administration expenses budget against the actual results for the two months to May 2017.

It was reported that there was an under-spend of £875,000 against the budget of £5,237,000. Over 80% of the variation related to professional fees set side that had not been incurred and lower than budgeted staffing costs.

RECOMMENDED:
That the report be noted.

6. ACCOUNTING FOR PENSION COSTS - IAS 19

The Assistant Director of Pensions (Funding and Business Development) submitted a report detailing the outcome of this year's Local Authority pensions accounting reports, which showed a small increase in funding levels assessed in accordance with the accounting standard IAS 19 and explained the reasons for the changes in deficit levels.

It was reported that the Fund submitted data to the Actuary who produced a formal IAS 19 report for each employer that requested a report on its LGPS liabilities. All Local Authority employers had experienced a positive impact on their reported funding level between 2016 and 2017. The increase was due to excellent asset returns generated during the period that had outweighed the increase in the value of the liabilities due to the negative change in the discount factor as a result of lower interest rates and falling bond yields.

There had been positive returns in equity markets for the 12 months to 31 March 2017, with the Main Fund actual returns confirmed at 23.8%, which was significantly higher than the Actuary's long term assumed real rate of 3.5% at the start of the accounting period. Whilst funding levels had improved the typical 'cash deficit' for Local Authorities had increased, however, as the value of both assets and liabilities had increased during the period.

The report detailed a comparison table of assumptions as at 31 March 2016 and 31 March 2017 and a chart comparing the 2016 and 2017 IAS 19 funding level for the 10 Local Authorities. The range of funding levels as at 31 March 2017 was 75% - 81%, which was an improvement on 2016 levels.

RECOMMENDED:
That the report be noted.

7. EDUCATION SECTOR EMPLOYERS

The Assistant Director of Pensions (Funding and Business Development) submitted a report, which provided the Working Group with an update on national developments relating to education sector employers and recent initiatives designed to improve how academy schools and their contractors interacted with LGPS Administering Authorities. It also provided an overview of the Fund's current administration and funding arrangements in relation to education sector employers.

It was reported that education sector employers in the LGPS could be broadly categorised into four groups, as follows:-

- Academy Schools
- Sixth-Form Colleges
- Further Education Colleges
- Universities

It was noted that Local Authority schools were viewed as part of the Local Authority rather than employers in their own right, however, they could outsource functions and those contractors could apply for admitted body status in the Scheme. Over recent years, changes in the education sector had increased administrative complexity for LGPS Administering Authorities and increased resource requirements.

In relation to Academy Schools, it was reported that less than 30% of approximately 1,000 Greater Manchester schools had converted to academies since the Academies Act 2010 was established. There were currently 215 academies participating in the Fund as scheme employers with 54 academy applications logged with GMPF. A significant amount of work could be created if academies chose to outsource groups of non-teaching support staff, which would increase the number of admitted bodies within the Fund, many of which had very small member numbers and joined for a short period of time.

In April 2017 the Local Government Association, in conjunction with the Department for Education and Department of Communities and Local Government, published a document providing information for academies participating in the LGPS (a copy of which was appended to the report). Some funds had voiced their concerns over the accuracy of the document and had therefore only given it limited publicity. Feedback had been provided to the Local Government Association with a number of recommendations for improvement.

In May 2017 the Scheme Advisory Board published a report "Options for Academies in the LGPS". The report examined the issues associated with the participation of academies in the LGPS and the agreed approaches to handling pension provision. Three key themes had emerged, as follows:-

- Policy, governance and outsourcing
- Administration and operations
- Contributions and finance

The Fund's actuary, Hymans Robertson, had provided a commentary on the report (a copy of which was appended to the report), which was considered by the Working Group.

With regard to sixth-form colleges, most had been pooled together for the purposes of calculating contribution rates and for funding ill-health retirement strain costs. Due to some sixth-form colleges converting to academy status, the pool had been broken up with effect from 1 April 2016. The pool was relatively well funded therefore most contribution rates were towards the lower end of the range for Fund employers and total liabilities at the valuation date was approximately 0.3% of GMPF liabilities.

In relation to Further Education Colleges, it was reported that over the past two years the Government had undertaken a review of post-16 education with recommendations to merge. Although no Greater Manchester colleges had merged GMPF had received notification that one college was due to merge with a University. The Government considered Further Education Colleges to be commercial entities therefore they could not be covered by guarantees of the type that covered Academies' LGPS liabilities. As at 31 March 2016 there were ten Further Education Colleges participating in the Fund. The total value of the liabilities was around 2.5% of the Fund's liabilities.

With regard to Universities, the Government view was that Universities were also commercial entities (albeit with charitable status). The following participated in the Fund:-

- Salford University
- Manchester Metropolitan University
- The University of Manchester
- The University of Bolton
- Liverpool Hope University

Manchester Metropolitan University and The University of Bolton were Scheme Employers whereas the other three were listed as admission bodies. As at the 2016 valuation the total liabilities of the five Universities was around 3.5% of the Fund's total liabilities.

RECOMMENDED:
That the report be noted.

8. URGENT ITEMS

There were no urgent items.