GREATER MANCHESTER PENSION FUND - EMPLOYER FUNDING VIABILITY WORKING GROUP

2 February 2018

Commenced: 10.00 am **Terminated:** 11.00 am

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

17. DECLARATIONS OF INTEREST

There were no declarations of interest.

18. MINUTES

The Minutes of the Employer Funding Viability Working Group meeting held on 27 October 2017 were approved as a correct record.

19. BESPOKE EMPLOYER INVESTMENT STRATEGIES

The Working Group welcomed William Marshall and Barry McKay of Hymans Robertson who attended the meeting to present the analysis conducted to date on bespoke employer investment strategies and outline the proposed next steps and key areas of focus over the coming months.

It was reported that investment strategy could be considered in terms of 4 key components: equities, enhanced yield (collectively known as 'growth assets'), credit (i.e. income) and hedging and protection. It was explained that growth, income and protection were the core building blocks that were used for the Main Fund and would be adopted for the bespoke investment strategy. Three charts detailing liability profiles of different groups of employers were shown and explained to the Group. The charts had been produced using output from the 'Asset Liability Modelling' work undertaken.

Mr Marshall told the Group that the structure needed to be manageable and meet existing governance demands. In theory, employers could be offered differing combinations of the three core building blocks. However, consideration needed to be given to the number of strategies offered to employers. With the Fund having over 900 employers with differing characteristics, a generic strategy was unlikely to be suitable for all employers. It was advisable to follow a framework and group employers that shared similar features such as employer type, funding target, whether they were open or closed to new entrants and the maturity of their liability profile. Diagrams showing the current framework and the proposed framework were shown and explained to the Group.

An overview of the analysis carried out to date was provided. A table detailing a summary of the sample employers considered was outlined alongside a table summarising the potential changes in investment strategies that would maintain a strong probability of achieving full funding by 2036 and reducing the risk of a shortfall emerging at a future actuarial valuation. There was evidence that suggested that some employers would benefit from an investment strategy with lower risk.

Examples were given on a range of investment strategies that would achieve a good balance between retaining the Main Fund as the highest risk / highest expected return component, offering employers a way to manage their risks (both in terms of a growing deficit and keeping contributions affordable) and retaining a pragmatic offering.

The next steps were outlined and included:-

- Consideration of what the structure of the offering would look like, taking into account the number of strategies, degree of flexibility, employer groupings, governance process and communications.
- Consideration of the nature of the underlying components (protection and income).
- Consideration of the practical aspects of running more than one strategy including cash flow management and banking.

RECOMMENDED:
That the content of the presentation be noted.

20. GMPF ADMINISTRATION EXPENDITURE MONITORING STATEMENT FOR THE 8 MONTHS TO NOVEMBER 2017

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

It was reported that there was an under-spend of £2.23 million against the budget of £18.951 million. The main reasons for the variation related to lower than expected investment management fees, lower than expected professional and legal costs associated with the ongoing pooling exercise and lower than budgeted staffing costs.

RECOMMENDED:
That the report be noted.

21. GMPF EXPENDITURE BUDGET 2018/2019

The Assistant Executive Director of Pensions (Local Investments and Property) submitted a report seeking approval for the GMPF 2018/19 expenditure budget, which would be sent to the Management Panel along with a medium term financial plan.

It was reported that the budget had been compiled following a review of current staffing and contractual arrangements alongside projected requirements for 2018/19. The budget would feed into the Medium Term Financial Plan, which reflected the Funding Strategy Statement. The assumptions were the same as the previous year with the Fund investment return at 4.2% per annum over the long term and inflation based on the Consumer Price Index Bank of England forecast.

The report detailed the changes in the 2018/19 budget compared to the 2017/18 budget. The changes reflected the implementation of policies approved by the Management Panel including changes to investment management arrangements, which made up the vast majority of the changes. Other changes included staffing costs, a reduction in charges associated with premises and a reduction in actuary and professional fees.

RECOMMENDED:
(i) That the 2018/19 expenditure budget be approved; and
(ii) That the medium term financial plan be presented at the Management Panel.

22. GMPF AGED DEBT AS AT 19 DECEMBER 2017

The Assistant Director of Pensions (Local Investments and Property) submitted a report summarising the aged debt for the Fund as at 19 December 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 December 2017 alongside comparison to the previous quarter; total aged debt was £3.369 million at 19 December 2017 compared to £2.647 million at 19 September 2017. The majority of this debt related to invoices issued to participating employers in the Fund. Payment plans had been agreed for some of the outstanding debt.

The key trends were highlighted; property aged debt had decreased from £0.367 million at September 2017 to £0.264 million at December 2017 and Employer and Overpaid Pension Aged Debt had increased from £2.279 million to £3.106 million. Although debt had increased there had been a significant reduction in the long term outstanding debt aged over 150 days.

For the 12 months to December 2017 5.08% 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.

23. INSOLVENCY REGIME FOR FURTHER EDUCATION AND SIXTH-FORM COLLEGES

The Assistant Director of Pensions (Funding and Business Development) submitted a report that outlined the consultation for the insolvency regime for further education and sixth form colleges.

It was reported that during 2016 the Department for Business, Innovation and Skills undertook a consultation on developing an insolvency regime for the further education and sixth form college sector. A copy of GMPF’s response to the 2016 Consultation was appended to the report. Following the consultation, the Technical and Further Education Act 2017 received Royal Assent. The Government was now preparing draft secondary legislation to implement the Act and a further consultation document had been issued, which sought to explain the insolvency provisions established by the 2017 Act, outline the proposals for the technical detail of the regime and set out practical proposals for dealing with colleges at risk of or in insolvency. It was proposed that GMPF submit a similar response to that given to the 2016 consultation.

Whilst there were no specific references to pensions in the consultation, LGPS funds would be one of the biggest creditors for many colleges and therefore had a material interest in the insolvency regime. GMPF had 11 sixth form college employers and 10 further education colleges participating in the Fund generally. The sixth form colleges were relatively well funded in GMPF therefore contribution rates were towards the lower end of the range and total liabilities were approximately 0.3% of GMPF in total. The average funding level for further education colleges was 94% and the total value of liabilities was around 2.5% of GMPF total liabilities. It was important for GMPF to consider the potential impact of the new insolvency regime and whether any mitigating actions needed to be implemented.

RECOMMENDED:
That the report be noted and a response to the consultation be submitted.

24. URGENT ITEMS

There were no urgent items.