

GREATER MANCHESTER PENSION FUND

LOCAL PENSIONS BOARD

14 December 2017

Commenced: 3.00pm

Terminated: 4.45pm

Present:	Councillor Fairfoull (Chair)	Employer Representative
	Councillor Cooper	Employer Representative
	Paul Taylor	Employer Representative
	Chris Goodwin	Employee Representative
	Catherine Lloyd	Employee Representative
	Pat Catterall	Employee Representative

Apologies for absence: Richard Paver, Mark Rayner and David Schofield

13. DECLARATIONS OF INTEREST

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

14. MINUTES

The Minutes of the meeting of the Local Pensions Board held on 24 July 2017, having been circulated, were signed by the Chair as a correct record.

15. UPDATE FROM GMPF MANAGEMENT PANEL

The Assistant Director of Pensions, Funding and Business Development, submitted a report summarising the decisions made by the GMPF Management Panel at its September and November meetings and the recommendations of six GMPF working groups, most of which had met twice over the period since the last Local Board meeting.

It was explained that Tameside MBC delegated its decision making in respect of GMPF to the Management Panel, which in turn permitted the Director of Pensions to implement its strategy via delegated powers. The Pension Fund Advisory Panel worked closely with the Management Panel, and advised them in all areas. Each local authority was represented on the Advisory Panel, and there were five employee representatives nominated by the North West TUC.

Four external advisors assisted the Advisory Panel, in particular regarding investment related issues. A key element was helping it to question the Fund's investment managers on their activities. GMPF also had six permanent working groups, which considered particular areas of its activities and made recommendations to the Management Panel. The Working Groups covered:-

- Alternative Investments;
- Policy and Development;
- Employer Funding Viability;
- Investment Monitoring and Environmental, Social and Governance (ESG);
- Pensions Administration; and
- Property.

The Panels and Working Groups met quarterly and the recommendations of each of the working groups from the meetings that had taken place since the last meeting of the Local Board, were set out in the report.

The Assistant Director highlighted the decision taken by the Management Panel at its meeting on 22 September 2017 in respect of the review of Investment Management arrangements and the approved continued appointment of UBS, L&G and Investec in their current mandates and the termination of the Fund's mandate with Capital International.

The Chair suggested that manager monitoring may be an area for consideration for Local Board going forward. The Assistant Director added that reports of the managers are submitted to the Management/Advisory Panel meetings, together with the Performance Dashboard and the Manager Monitoring Regime and escalation process, which is a recent process brought in by the Director to look at risk as well as performance to which Local Board members had access.

RESOLVED

That the content of the report be noted.

16. LGPS POOLING UPDATE

The Assistant Director of Pensions, Funding and Business Development, 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.

It was reported that all pools were required to submit their pooling proposals to Government in July 2016 and progress updates on the delivery of these proposals were submitted in April 2017.

All pools received a letter from Government over the summer requesting submission of a further progress update covering the period to 30 September 2017. DCLG issued a template for the autumn progress update, which was very similar to the template for the submission made by pools in April.

The Northern Pool's progress report and supporting documents were appended to the report.

It was explained the main ongoing work streams for the Northern Pool were progressing well as follows:

- Developing a vehicle to make private equity investments on a collective basis. The governance of this vehicle was expected to operate in a similar manner to the GLIL infrastructure vehicle.
- Procurement of an FCA regulated custodian for the pool. A review of how the pool could develop its risk, cost and performance reporting would be undertaken alongside the procurement.
- Work was underway to procure an FCA regulated operator for the GLIL infrastructure vehicle. This would allow other pools to join. GLIL currently had commitment of £1.3 bn to direct infrastructure in the UK, with investments of almost £300m made to date. There was currently little evidence of other pools having made significant progress on developing the capacity for direct infrastructure investments.
- The democratic services functions of each of the administering authorities were progressing the creation of the Pool joint committee, with Tameside MBC acting as lead authority. This joint committee would oversee the Pool and provide a democratic link back to the individual funds. The legal agreements setting out the governance framework of the Pool were not yet finalised as work was being undertaken to ensure that they were aligned with the governance framework of the private equity vehicle.

It was noted that Northern Pool costs to 30 September 2017 were approximately £200,000 compared to the original estimate of implementation costs which was £1.8 million

Details of GMPF's housing investments were included in the infrastructure section of the response to demonstrate progress against the Pool's target of building 10,000 homes. Up to 30 September 2017, GMPF had financed 284 completed homes, with a further 236 under construction. Due diligence was currently being undertaken on 9 further projects which would deliver another 3,863 homes. It was hoped that the rate of delivery could be increased via joint ventures with other funds in the Pool.

Following discussion with Jeff Houston of the LGA at the meeting of the Shadow Joint Committee held on 24 October 2017, the progress update provided further clarity for Government on how the plans for the Northern Pool had evolved since the July 2016 submission was made to Government and how, in the opinion of the participating funds, the pooling Criteria and Guidance were met. This was set out in the report and in an appendix to the report.

A update was also given of developments nationally, of the 8 pools across the LGPS.

In respect of Governance arrangements, the Assistant Director informed Board members that it was expected that a report be submitted to the meeting of Full Council in May 2018 following Panel Meeting in March making recommendations, setting out the governance arrangements of the Northern Pool.

Detailed discussion ensued in respect of the above and the Pooling agenda in general and it was agreed that the governance arrangements for the Northern Pool be submitted to the next meeting of the Local Board, following its consideration by Full Council.

RESOLVED

- (i) That the content of the report be noted; and
- (ii) That a report be submitted to the next meeting of the Local Board in respect of the governance arrangements for the Northern Pool.

17. LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985 – EXEMPT ITEMS

RESOLVED

That under Section 100 (A) of the Local Government Act 1972 the public be excluded for the following items of business on the grounds that:

- (i) they involve the likely disclosure of exempt information as defined in the paragraphs of Part 1 of Schedule 12A of the act specified below; and
- (ii) in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information for reasons specified below:

<u>Items</u>	<u>Paragraphs</u>	<u>Justification</u>
7 & 8	3&10, 3&10	Disclosure would or would be likely to prejudice the commercial interests of the Fund and/or its agents, which could in turn affect the interests of the beneficiaries and/or tax payers.

18. FINANCING ARRANGEMENTS FOR GUARDSMAN TONY DOWNES HOUSE

A report of the Assistant Director of Pensions, Local Investments and Property, was submitted, advising Members that an opportunity existed for the Fund to 'sell' Guardsman Tony Downes House to the administering authority and for the Pension Fund to be the tenant on a long lease-type of arrangement.

The report explained how this could bring financial advantages to both parties.

It was further explained that if the Council were to take ownership of the building on its balance sheet and receive rent from the Fund for its occupation, as opposed to it being a Fund investment owned by Tameside as administering authority, there would be a financial benefit to both the Fund and Council. This was essentially due to the cost of capital for the Pension Fund (i.e. its expected rate of return being higher than the rate at which the Council could borrow and much higher than the return than the Council received on its reserves).

Discussion and negotiation had been carried out between officers with a joint desire to find an arrangement that offered reasonable financial returns for each party. The Council and the Pension Fund had jointly commissioned an independent valuation of the building. The indicative value was around £14-£15psqft for the office accommodation and £7 million for the capital value. A copy of the formal confirmation from the external valuer was appended to the report.

Members were further informed that the ground floor had not yet been developed. It was originally planned that the Pension Fund would pay to bring the ground floor into use but given that the expected occupier would be the Council, and it would be the landlord under the proposed financing arrangement, then it would be more appropriate for the Council to carry out the necessary works (the alternative would be for the Pension Fund to carry out works and for the Council to pay a higher price for the building). At this stage it was recommended that a sum of £1.4m be set aside in the capital investment programme for these works. A future report would be considered by the Council if the sale was approved. The development of the ground floor was beneficial to the Fund's occupation from a security and public realm perspective.

From Tameside's perspective as the administering authority for GMPF, it was a major risk that occupation of Guardsman Tony Downes House by GMPF would not be secured in the form of a lease agreement. This was because the Council could not enter into legal agreements with itself. There was the possibility that at some point over the next 25 years the Pension Fund no longer wished to occupy the building. In order to protect its position, the Council would be seeking a commitment from the Pension Fund that if it moved out of Guardsman Tony Downes House it would pay Tameside Council a sum equivalent to the NPV of the total annual passing rent for the period beginning on the date of vacation of the building to the 25th anniversary of the date the Council 'purchased' the building (currently assumed to be 1 January 2043 and discount rate for NPV purposes 5.2%).

The proposal had been tested with the external auditor for the Fund and Council and they did not object to the proposals in principle, but it would be confirmed with them when final terms were agreed.

The report concluded that the construction of the Pension Fund building had been completed broadly on time and on cost and the building had been well received.

The environment since the original plan for the financing of the building and the use of the ground floor space had changed significantly.

The options of the Council taking the building onto its balance sheet and charging GMPF a rent for use whilst GMPF completed ground floor space in advance of the specific occupier fit out requirements had a number of compelling advantages:

- Provided a practical solution for use of remaining space within the building;
- Provided a financial benefit to the Fund; and
- Provided a financial benefit to the Council.

The rationale and implications of this proposal had been discussed with the Council's and Fund's auditors. Neither auditor had objected to the proposal set out in the report in principle, subject to final confirmation of terms.

The Assistant Director explained that, when the report was submitted to the Management Panel, Members had sought assurances in respect of contingency plans in place should the building not be occupied for 25 years. Fund Advisers had also sought further information in respect of this issue. Panel Members had been informed that, in those circumstances, the Fund would pay the outstanding rent discounted by investment returns and that a quasi-lease was to be drawn up to include an early termination clause.

Local Board members sought clarification with regard to availability of the building for community use.

The Assistant Director responded that at the present time the public space was vacant and there was an intention in the Administering Authority's capital programme that £1.4 million would be set aside for the development of the public space although clearly it was in the gift of the Council who had paid for the building and provided the land as to the use of the building and the space that was currently empty and respect of which the Fund had no liability.

RESOLVED

That the recommendations approved by the GMPF Management Panel on 17 November 2017 be noted as follows:

The sale of Guardsman Tony Downes House for £7.0 million to the administering authority, Tameside Metropolitan Borough Council, be approved and the Fund committing:

- (a) To the payment of an annual rent with effect from the 1 January 2018 to the Council of £384,250 per annum, with upward annual reviews linked to RPI, plus service charges for the running of the building and for cyclical maintenance of plant and equipment; and**
- (b) That in the event that the Fund vacates the building before the expiry of 25 years, it will pay the Council a sum equivalent to the total annual passing rent for the period beginning on the date of vacation of the building to the 25th anniversary of the date the Council 'purchased' the building (currently assumed to be 1 January 2043 and discount rate for NPV purposed 5.2%).**

19. FIRST BUS CONSOLIDATION

Consideration was given to a report of the Assistant Director of Pensions, Funding and Business Development, explaining that First Group, one of GMPF's largest private-sector employers had chosen to consolidate its two other English LGPS arrangements into GMPF with effect from 1 November 2017.

The report provided an update on progress in relation to the project, including:

- Administration;
- Asset Transfers;
- Funding;
- Pre 86 pension increase liabilities transferring from WYPF; and
- Press coverage.

In terms of next steps, it was explained that whilst many of the key administration tasks had been completed, significant work would continue over the forthcoming year. In particular, GMPF would continue to work on the following:

- Reaching agreement with WYCA and WYPF on the funding of the pension increases on pre 1986 service for first West Yorkshire members;
- Amending the First West Yorkshire member records to clearly split out the pre-1986 pension increase amounts in advance of the 2019 actuarial valuation so that liabilities could be accurately allocated between First West Yorkshire and WYCA;
- Agreeing longer-term investment strategy with First Group; and

- Agreeing asset transfer dates and transfer amounts with WYPF.

RESOLVED

That the content of the report be noted.

20. ADMINISTRATION BUSINESS AND PROJECT PLANS

A report of the Pensions Policy Manager was submitted providing Local Board members with a summary of:

- Progress made on the 2017/18 business planning objectives set by the Administration section;
- A summary of the other strategic or service improvement administration projects being worked on currently; and
- Regular and other items of work currently being undertaken by the section.

Local Board Members thanked Emma Mayall, Pensions Policy Manager, for the very informative and detailed report and sought further information in respect of the testing of the disaster recovery arrangements.

Members also sought clarification with regard to issues arising from Pensions Tapering and Scheme Pay rules. The Pensions Policy Manager, responded that this was a key item for consideration and improving communication on this matter was being addressed.

The Chair enquired if risk exercises were undertaken for new projects. The Pensions Policy Manager responded in the affirmative.

RESOLVED

That the content of the report be noted.

21. GUARANTEED MINIMUM PENSION RECONCILIATION

Consideration was given to a report of the Pensions Policy Manager providing the Local Board with background information about Guaranteed Minimum Pension (GMP) Reconciliation together with an update on the progress made by GMPF on this project.

The report summarised that this was a large-scale and reasonably long-term project. Work was underway and tasks were being completed in-line with the target dates set.

There were a number of risks and issues to be managed as part of carrying out the project. These included addressing the underpayments and overpayments that would be uncovered.

The project team were aware of the possibility for HMRC to change their guidance around GMP Reconciliation and that this could affect decisions already taken or potentially cause the Fund to revise its approach.

Progress updates would continue to be taken to future Pension Administration Working Group meetings until the project was completed in December 2018.

RESOLVED

That the content of the report be noted.

22. RISK MANAGEMENT AND AUDIT SERVICES 2017/2018

Consideration was given to a report of the Head of Risk Management and Audit Services summarising the work of the Risk Management and Audit Service for the period to November 2017.

Details were given of final reports issued during the period as follows:

- Review of Fund Manager – Investec
- Advance Contributions Scheme
- Visits to Contributing Bodies – National Probation Service (NPS)
- Private Equity

Draft reports were also issued as follows:

- GM Property Venture Fund – Review of First Street Development
- VAT

Details were also given of post audit reviews completed in the period as follows:

- Visit to contributing Bodies – Manchester Airport
- Visit to contributing Bodies – Stockport College

Details were also given of other work carried out in the period, including the Transfer of First bus to Greater Manchester Pension Fund.

Audits/work currently in progress were outlined as follows:

- Transfer of assets to Stone Harbor (New Credit Manager) and
- National Fraud Initiative exercise.

It was further reported that a report was taken to Council on 10 October 2017, providing an update on the appointment of the External Auditors. The Council agreed that it was satisfied with the proposed appointment of Mazars LLP to audit the accounts of Tameside Metropolitan Borough Council for five years from 2018/19, following the procurement process undertaken by Public Sector Audit Appointments Limited (PSAA). Official notification would be received in December confirming the appointment of Mazars. Once officially appointed, officers within the Council would work with both Grant Thornton and Mazars to ensure a smooth transition.

Local Board members were informed that discussions had taken place with managers in relation to the audits remaining in the Audit Plan, whether the timing was still appropriate for this year's plan and whether there are any new emerging risks and audits that needed to be added. Details of the days spent against the 2017/18 Internal Audit Plan up to 17 November 2017, including the adjustments to the plan, were appended to the report.

The Assistant Director of Pensions, Funding and Business Development, circulated a letter received from the Pensions Regulator in respect of administration and governance issues within the Scheme relating to members employed or previously employed by the National Probation Service. He explained that the Regulator had taken the decision to open a case to investigate these concerns and was seeking to gain a better understanding of the issues in order to determine the most appropriate next steps.

The Assistant Director also circulated a copy of his response to the Regulator, explaining that the key issue was caused by a payroll system error rather than officer error at SSCL (the employer). He added that he was confident with the assurance provided by the employer that they had sufficient plans in place to resolve the issue. However, GMPF would be working with them over the coming months to ensure any further work needed to prevent similar issues occurring again in the future was carried out. In addition, any actions linked to the internal audit work would be followed up and procedures would be reviewed and checks enhanced to identify where enhancements might be made.

RESOLVED

That the content of the report be noted.

23. DATE OF NEXT MEETING

It was noted that the next meeting of the Local Board would be held on Thursday 29 March 2018 at 3.00pm.

CHAIR