GREATER MANCHESTER PENSION FUND

EMPLOYER FUNDING VIABILITY WORKING GROUP

30 October 2015

Commenced: 9.30am **Terminated: 11.40pm**

Present: **Councillors J Fitzpatrick (Chair), Cooney, Mitchell and Patrick. Mr Llewellyn, Mr Flatley and Mr Allsop**

Apologies for absence: **Councillors Cooper, Dean and Reid and Ms Herbert**

12. DECLARATIONS OF INTEREST

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

13. MINUTES

The Minutes of the proceedings of the meeting of the Employer Funding Viability Working Group held on 7 August 2015 were approved as a correct record.

14. LGPS ASSET POOLING AND IMPLICATIONS FOR EMPLOYER FUNDING

Consideration was given to a report of the Executive Director of Pensions providing an update on recent developments relating to the proposals for pooling investments across the LGPS in England and Wales, with a particular focus on the potential implications for employer funding.

It was reported that DCLG/HMT had been looking at options to reduce investment management costs and improve investment returns across the LGPS for a number of years. A recent example was consideration being given to the case for all LGPS funds to adopt a passive investment management approach to reduce investment management costs. The case for fewer funds had also been considered in the past.

The Chancellor announced in the summer budget that he would be seeking proposals for pooling of assets by funds. Details were given of the key messages emerging since the budget announcement.

At the Conservative Party Conference on 5 October the Chancellor provided a further statement, making reference to the creation of 'British Wealth Funds'. DCLG subsequently issued a letter to all LGPS funds providing reassurance that the Chancellor's latest comments were not a departure from the original proposals. However, there was a strong suggestion that Government saw a desirable outcome being groups of funds working together across all asset classes and that the ability to invest in large scale infrastructure was now one of the criteria upon which proposals will be assessed.

It was explained that there were two ways in which assets could be pooled;

(i) By funds working together and pooling their collective assets, and
(ii) By creating individual asset class pools, e.g. a UK equity pool.

An initial evaluation of these options was presented to the Working Group. It was further explained that the Government was currently looking to determine the criteria by which the options are evaluated.

GMPF was collaborating with a number of funds supported by Hymans Robertson to evaluate a number of pooling options against the Government's criteria and all LGPS funds had been asked to provide data on investment returns and investment management costs to assist in this work.

It was summarised that the interaction of the austerity programme and the economic environment meant that funds were rapidly maturing and funding levels were at historical low levels. The potential outcomes from pooling assets could lead to fundamental reform of the structure of the LGPS and its governance arrangements. It was likely that there would be no exemptions from pooling for the vast majority of Fund assets and an end to local decision making on manager selection.

The scale of GMPF, its long term track record and the experience gained from the take on of probation liabilities placed it in an excellent position to contribute to the debate. This could take varying forms, such as responding to government consultations, trying to develop an effective consensus view with others, commissioning research and obtaining legal advice.

RECOMMENDED
That the content of the report be noted.

15. GMPF ADMINISTRATION EXPENDITURE MONITORING FOR THE FIVE MONTHS TO AUGUST 2015

The Executive Director of Pensions submitted a report, comparing the administration expenses budget against the actual results for the 5 months to August 2015.

It was reported that there had been an under-spend of £3,000 against the budget of £9,509,000 for that period. It was explained that this was due to underspend in recruitment implementation, recovery of Management and Legal Fees: income from investment joint venture initiatives and higher than expected commission recapture.

RECOMMENDED:
That the report be noted.

16. GMPF AGED DEBT AS AT 19 SEPTEMBER 2015

The Executive Director of Pensions submitted a report, summarising the employer and pensions overpayment related aged debt for the Fund as at 19 September 2015.

It was reported that actual debt outstanding was £4.309 million, compared to £8.156 million as at 19 June 2015. The ten highest value invoices within the Employer debt, Property Main Fund and Property Venture Fund category were outlined and discussed as per Appendices A, B & C of the report.

It was noted that a schedule of write-offs of debts that will not be recoverable had been approved by the Chair of the Working Group. These write-offs totalled £0.483m and bring the debt-outstanding at 19 September down to £3.827m.

RECOMMENDED:
That the content of the report be noted.

17. EMPLOYER CESSATIONS UPDATE

The Executive Director of Pensions submitted a report giving details of recent cessation events.

It was reported that, for admission bodies, an admission agreement was required to be entered into in order for them to become an employer in the Fund. There was an expectation that the admission agreement would at some point terminate and the process to be followed in the event of a termination was clearly laid out in the admission agreement. This ensured that the cessation was smoothly managed and, where relevant, the liabilities reverted to the guarantor.

However, when a cessation event was unexpected, perhaps as a result of employer failure or where there was no guarantor, administrative complexity increased and there was the potential for scheme funding to be adversely impacted.

It was expected that the number of employer failures would increase; particularly for those relying on financial support from the Government, as spending continued to reduce.

The report concluded that these cases continued to highlight the importance of ensuring appropriate protections were in place when employers were admitted to the Fund and any existing risks were closely monitored.

RECOMMENDED
That the content of the report be noted.

18. TfGM INVESTMENT STRATEGY

A report was submitted by the Executive Director of Pensions, which explained that one of the Fund's key tasks for the year was to develop the capability and capacity to implement employer specific investment strategies.

The Fund had been working with some of the larger employers with mature liability profiles to assess whether an investment strategy different to the Main Fund was appropriate and explored the practical ways of achieving this.

The report provided a summary of the discussions which have been held with one such employer, Transport for Greater Manchester (TfGM) and the issues that required further consideration.

One element of a potential investment strategy for TfGM involves investing in pooled funds which protect the employer's funding position against inflation being higher than expected in future (Fund benefits are directly linked to CPI inflation). The working group discussed how such inflation only funds work and some of the potential risks in making such an investment.

RECOMMENDED
(i) That the content of the report be noted; and
(ii) That approval be given to officers to continue in their discussions with Transport for Greater Manchester.

19. 31 MARCH 2016 ACTUARIAL VALUATION

Consideration was given to a report of the Executive Director of Pensions and a presentation of Steven Law and Barry McKay of Hymans Robertson, the Actuary to the Fund, explaining that the next 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 presentation summarised the steps involved in the valuation process and provided details on the actions requiring attention prior to the effective date of the valuation.

RECOMMENDED

(i) That the content of the report and presentation be noted; and

(ii) That the proposed timeline and workplan for undertaking the valuation process be agreed.