GREATER MANCHESTER PENSION FUND - LOCAL PENSIONS BOARD

19 January 2016

Commenced: 2.00 pm **Terminated:** 3.50 pm

Present:	Councillor Middleton (Chair)	Employer Representative
	Councillor Cooper	Employer Representative
	Richard Paver	Employer Representative
	Catherine Lloyd	Employee Representative
	Mark Rayner	Employee Representative
	David Schofield	Employee Representative
	Chris Goodwin	Employee Representative

Apologies for Absence: Jayne Hammond

16 DECLARATIONS OF INTEREST

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

17 MINUTES

The Minutes of the meeting of the Local Pensions Board held on 6 October 2015 were approved as a correct record.

Further to Minute 10 – Expansion of GMPF Board, Members were informed that the Council had approved a move to 5 employee and 5 employer membership for the Local Board and the appointment of the additional employee and employer representatives.

Progress was being made on filling the remaining positions as follows:

(i) A non-local authority employer – nominations were sought on the Fund's website and expressions of interest were received form 15 potential employer representatives. A shortlist had now been drawn up and interviews were scheduled to be held in early February 2016; and

(ii) Similarly, 5 expressions of interest had been received from potential pensioner representatives and again interviews were planned for early February 2016.

18 UPDATE FROM GMPF MANAGEMENT PANEL

The Executive Director of Pensions submitted a report providing an update for Board members on some of the key agenda items from the meeting of GMPF Management/Advisory Panel held on 11 December 2015 as follows:

Pooling of Assets

It was reported that the progression of the Government's proposal for pooling of assets was a key area of work for the Panel, Chair of the Fund and officers. This item would feature on all Panel agendas for the foreseeable future.

It was explained that the LGPS across England and Wales, consisted of 89 regional funds with total assets of almost £200bn. The average size of a regional fund was around £2bn, but there was wide variation between the largest fund, GMPF, at £17.6bn and the smaller funds, such as those operated by each of the 32 London Borough, many of which had assets of less than £1bn.

DCLG/HMT had been looking at options to reduce investment management costs and improve investment returns across the LGPS as a whole for a number of years.

The Chancellor announced in the summer budget that he would be seeking proposals for pooling of assets by funds and following the budget announcement key messages emerged in discussions with DCLG/HMT officials.

Members were further informed that, at the Conservative Party Conference on 5 October 2015, the Chancellor provided a further statement as follows:

"At the moment, we have 89 different local government pension funds with 89 sets of fees and costs. It's expensive and they invest little or nothing in or infrastructure. So I can tell you today we're going to work with councils to create instead half a dozen British Wealth Funds spread across the country. It will save hundreds of millions in costs, and crucially they'll invest billions in the infrastructure of their regions."

Further reference to these British Wealth Funds was also made within the Government's four-point infrastructure plan.

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 the outcome as 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 would be assessed.

Following the Chancellor's spending review and Autumn Statement, the Government had published a number of documents relating to LGPS investments in England and Wales and an initial analysis of each of the documents was provided for discussion.

The criteria for evaluating pooling options was outlined and 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 had been presented at the October meeting of the Management Panel (Meeting of 2 October 2015, Minute 34 refers) and following discussions, views on criteria were expressed in a letter to DCLG, a copy of which was appended to the report. The criteria by which funds proposals will be evaluated by Government were set out in the recently published – "Local Government Pension Scheme – Investment Reform Criteria and Guidance." These were as expected with the aim to reduce costs and at least maintain returns. The specific criteria were:

- Asset pools should achieve the benefits of scale;
- Strong governance and decision making;
- Reduce costs and provide excellent value for money; and
- Improve capacity to invest in infrastructure.

It was reported that a group of 25 funds, including GMPF, had formed a joint working group to work together on a project to deliver a joined-up response to Government on options for LGPS investment pooling. The aim of the project was to deliver an authoritative and objective based assessment of options for pooling LGPS investments. All of the options for pooling would be assessed against the likely Government criteria for pooling. The Working Group aimed to deliver its report to Government in January 2016 and to share it with all administering authorities, the LGA and other interested parties.

Members were informed that, since the October meeting of the Management Panel, discussion regarding collaboration had been ongoing on a regular basis with a number of other, predominantly northern based LGPS funds. The funds involved had shared information on their investment beliefs, investments management arrangements, their key strengths and the ‘red-lines’ which would prevent them being party to any agreement. GMPF’s ‘red-lines’ were broadly as set out in the Fund’s response to government on criteria which was appended to the report.

This sharing of information was designed to help funds determine the ‘like-minded’ funds with which they could form an asset pool. The long term vision which GMPF envisaged creating with other funds was a pool which provided the following:

- Collective investing in alternatives, which would;
- Build capacity and skills;
- Becoming increasingly direct; and
- Increase scale and reduce risk in infrastructure.

It was reported that at this stage, GMPF was open minded to working with other pools or on a national basis for some alternative assets, for example infrastructure.

Discussion ensued with regard to the implications of asset pooling and Board Members raised a number of issues, including:

- Unitisation within the Pool;
- Division of assets and ring fencing of costs;
- Long term vision and investment philosophy;
- Governance; and
- Investment in infrastructure.

GMPVF – One St Peter’s Square
It was reported that lease arrangements had been agreed with a large firm of solicitors.

Airport City
The President of China’s visit to Manchester Airport and Airport City attracted considerable publicity for the planned developments and this coincided with the resolution of a number of technical issues. The pace of development was now expected to accelerate.

2016 Pensions Increase and Revaluation
Pensions in payment and deferred pensions were increased in line with Pension Increase (Review) Orders. These were made when there was an increase in the September value of the Consumer Prices Index (CPI) as compared to the previous September’s CPI. This year, the change to September 2015 was a negative 0.1%, meaning that no Pensions Increase (Review) Order would be made. Pensions and deferred pensions would therefore not change in value.

Career average pensions being built up by active members were revalued to take account of changes in prices, by Treasury Orders. As yet, nothing had been confirmed concerning the likelihood, or otherwise, of a negative revaluation percentage being passed in law. It therefore remained to be seen for active members whether career average pensions built up thus far would reduce in value or remain the same.

Scottish Parliament Report on Pension Fund Investment in Infrastructure
It was reported that the Local Government and Regeneration Committee of the Scottish Parliament published its report on pension fund investment in infrastructure and city deal spend on 30 November 2015.

A submission was made to the Committee by the fund and members of the Committee subsequently visited Manchester to look in more detail at GMPF’s approach to local investment and infrastructure. An extract from the report re: GMPF’s contribution was set out in the report.

RESOLVED
That the content of the report be noted.

19 RISK MANAGEMENT AND AUDIT SERVICES

A report was submitted by the Assistant Executive Director of Finance and the Head of Risk Management and Audit Services summarising the work of the Internal Risk Management and Audit Service for the period October to December 2015.

Details were given of final and draft reports issued during the period October to December 2015.

Information was also given of other work carried out in the period, including:

- Advice to managers on the National Fraud Initiative matches, advice re: ICT equipment disposal, other ad hoc advice; and
- Irregularities – none in this quarter.

Members were informed that a detailed review of the 2015/16 audit plan had taken place to ensure that the plan was still relevant, that any revised priorities were taken into account and also to take account of the work done so far, and reduced resources in Internal Audit. The main changes to the Plan and rescheduled audits were detailed in the report.

It was explained that Internal Audit would shortly be consulting with Managers to draw up the Audit Plan for 2016/17, in the context of a three year plan so the rescheduled audits would be re-assessed as part of that process and included in next year's plan should they be identified as still being a priority to be carried out.

It was further explained that the main financial systems audits in quarter 4 were carried out every year, in order that a greater proportion of the year's transactions could be included in the samples tested.

Planned audits for quarter 4 were also detailed.

The revised plan was appended to the report, which indicated that 250 days had been allocated to the Fund for this financial year, less than the 300 days originally allocated.

Discussion ensued and Members raised concerns with regard to the reduction in planned days and sought assurances that adequate internal audit provision would be made going forward.

The Head of Risk Management and Audit Services explained that the Service was currently undergoing a service review and it was possible that additional days may be provided next year. She added that a full plan would be submitted to the next meeting of the Board.

The Executive Director of Pensions stressed the importance of robust internal control processes and added that, if required, some specialist internal audit provision would be purchased.

20 VALUATION UPDATE

Consideration was given to a report and presentation of the Executive Director of Pensions, setting out the 2016 actuarial valuation timetable. A copy of the latest valuation timetable was appended to the report.

RESOLVED
That the content of the report and presentation be noted.

21 EMPLOYER COVENANT

The Executive Director of Pensions submitted a report explaining that the Fund could generally take a long-term outlook due to the ability of the Fund's participating employers to ultimately make good any deficits that emerged from time to time. This ability was often referred to as the 'employer covenant'.

The report provided a high-level analysis of the fund's employer covenant with the aim of highlighting any weaker sectors and employers where the Fund was potentially exposed to a material employer cessation risk and where further analysis should be taken.

It was explained that consideration of employer covenant strength would form a key part of the 31 March 2016 actuarial valuation process. Specific actions during the valuation process were likely to include:

- Categorisation of employers into different risk categories, following a similar methodology to that used in the analysis for the report. This would include reassessing the risk of different sectors (e.g stated Government policy and funding);
- For employers deemed to be of higher risk, analysis of employers' balance sheets to estimate the Fund's outcome in a hypothetical insolvency scenario; and
- Consideration of further steps the fund could take to reduce exposure, e.g. fund on more prudent assumptions, implementation of bespoke lower-risk investment strategies, seek additional forms of security, such a charge over assets.

Going forward, the Fund would provide Local Authorities on an annual basis with details of the employers for which they acted as guarantor.

The report concluded that the Fund would continue to share knowledge and experience in this area with other funds as appropriate.

RESOLVED
That the content of the report be noted.

22 REPORT TO PENSIONS REGULATOR REGARDING MEMBER BENEFIT STATEMENTS

The Executive Director of Pensions submitted a report, explaining why there had been problems this year in providing Annual Benefit Statements (ABSs). A copy of the letter sent to the Pensions Regulator explaining the late dispatch of ABSs to the minority, albeit substantial number of the Fund's members impacted, was appended to the report.

The report concluded that the inability to produce all the ABSs that were required was a breach of the law and resulted in disappointing service to Members. Whilst disappointing, many other LGPS funds are in the same position.

A great deal of work is taking place to try and ensure that for the 2015/16 year end, far more data is received from employers that is accurate, timely and complete. As well as enabling the production of ABSs by 31 August 2016, receiving accurate, timely and complete information from employers would be far more efficient and effective for both employers and the administering authority by reducing the amount of laborious manual intervention and re-work. It would also facilitate the timely and accurate completion of the 2016 actuarial valuation that determines employer contribution rates with effect from 1 April 2017.

RESOVLED
That the content of the report and plans to improve performance next year, be noted.

23 POLICY FOR REPORTING BREACHES OF THE LAW TO THE PENSIONS REGULATOR

Consideration was given to a report of the Executive Director of Pensions, which provided a draft procedure for reporting material breaches of the law to the Pensions Regulator.

Members raised concerns with regard to possible conflict going forward in relation to the roles of Solicitor to the Fund and Executive Director of Pensions, which would be held by the same person, when the current Executive Director retired in May 2016.

The Assistant Executive Director – Pensions Administration informed Members that it was a request not a requirement to consult the Solicitor to the Fund in respect of reporting breaches of the law to the Pensions Regulator and to ensure consistent with Administering Authority's Whistle Blowing Policy and to enable reporting back to the Board for appropriate oversight, scrutiny and learning.

24 ASSESSMENT OF TRAINING NEEDS

A report was submitted by the Executive Director of Pensions explaining that Board members are required to acquire appropriate 'knowledge and understanding' of pension matters, under the Pensions Act 2004. The degree of knowledge and understanding must be '*appropriate for the purposes of enabling the individual to properly exercise the functions of a member of a local Board'.*

The report set out the results of the self-assessment of Board members training needs and recommended the areas on which training should focus during 2016.

Three areas identified for training were as follows:

- Internal controls – including how scheme members' data is kept and how employer and employee contributions are monitored and recorded;
- Resolving Disputes – How disputes between members, employers and the Fund are raised, documented and resolved; and
- Funding and Investment – including the purpose of the actuarial valuation process and how contribution rates are set, the purpose of the Fund's Statement of Investment Principles and Funding Strategy Statement and the role of the Fund's custodian.

It was proposed that the above three areas be a focus of the training programme during 2016, and that each one be added to the agenda as a training item for the next three meetings, starting with Funding and Investment at the next meeting.

Members made reference to the self-assessment and commented that it would be useful for Board Members to have information with regard to the Management Panel's level of understanding/training requirements. The Executive Director of Pensions agreed to raise the matter of the same self-assessment process being completed by Management/Advisory Panel Members also.

The Executive Director of Pensions added that the recording of training undertaken for Members was also being formalised and included in the Annual Report and Accounts.

Members further sought information with regard to resolving disputes. The Executive Director agreed that this would be an item on the agenda for the next meeting.

RESOLVED

(a) That the content of the report, including the knowledge and understanding requirements of Board Members, be noted; and

(b) That the training requirements, as detailed above, be agreed.

25 CONFLICTS OF INTEREST POLICY

The Executive Director of Pensions submitted a report and delivered a presentation advising that the LGPS Governance Regulations 2015 required each administering authority to be satisfied that Members of their local board did not have a conflict of interest.

It was explained that a policy for Managing Potential Conflicts of Interest on the Board, had been drafted and was provided as an appendix to the report for approval.

The presentation gave examples of potential and actual conflicts of interest and outlined the legal requirements of Board members to provide the scheme manager with all appropriate information in respect of their interests. The requirement to maintain a conflicts register was also highlighted.

Possible courses of action to manage conflicts of interest was also detailed and discussed.

RESOLVED
That the draft policy (as appended to the report) for managing potential conflicts of interest be approved.

CHAIR