GREATER MANCHESTER PENSION FUND - EMPLOYER FUNDING VIABILITY WORKING GROUP

Friday, 10 February 2017

Commenced: 9.30 am **Terminated:** 10.40 am

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

In Attendance:	Sandra Stewart	Executive Director of Pensions
	Paddy Dowdall	Assistant Executive Director of Pensions (Local Investment and Property)
	Euan Miller	Assistant Executive Director of Pensions (Funding and Business Development)
	Tom Harrington	Senior Investments Manager

20. DECLARATIONS OF INTEREST

There were no declarations of interest.

21. MINUTES

The Minutes of the Employer Funding Viability Working Group meeting held on 28 October 2016 were approved as a correct record.

22. 31 MARCH 2016 ACTUARIAL VALUATION

The Assistant Executive Director of Pensions (Funding and Business Development) submitted a report updating the Group on the progress of the 31 March 2016 actuarial valuation process, which was required to be completed by 31 March 2017.

It was explained that the Funding Strategy Statement provided guidance to the Actuary in undertaking the actuarial valuation. Following consideration at the Working Group meeting in October the Funding Strategy Statement had been issued to employers for consultation, at the same time as the notification of provisional contribution rates, and had been presented at the November GMPF Management Panel.

The Working Group were informed that some minor amendments had been made, which aimed to provide additional clarity on the Actuary's valuation methodology but not substantive comments had been received from employers. An updated Funding Strategy Statement was appended to the report and a final version would be submitted to the GMPF Management Panel in March 2017 for formal approval.

The whole fund results were presented to the Group; the deficit in GMPF had increased from £1.3 billion in 2013 to £1.4 billion in 2016, however, £0.6 billion of this was in respect of probation liabilities that were transferred in 2014, therefore the deficit for non-probation employers had fallen by approximately £0.5 billion. The funding level had increased from 90.5% in 2013 to 92.5% in 2016.

A comparison against other LGPS Funds was outlined in the report. GMPF was likely to remain one of the better funded LGPS funds and early estimates indicated that as a whole LGPS funding positions were broadly unchanged. GMPF was 105.5% funded at the valuation date using the standardised assumptions developed by the Scheme Advisory Board.

It was reported that GMPF had been exploring the possibility of giving local authority employers the option of paying their contributions in advance for the period 1 April 2017 to 31 March 2020, which would be beneficial via additional investment returns for GMPF and a reduction in contribution rates for the authority making the advance payment. An explanation of the advance payment of contributions was provided; if an authority made a payment one year in advance the reduction would be 2% and a 6% reduction would be applied for payments made three years in advance. These reductions should provide a better return for local authorities than their cash reserves. Another area of flexibility offered was to vary the amount paid towards a budget to meet the cost of non-ill health early retirements, which was discussed with the Group.

The Working Group were notified that the Actuary had adopted a risk-based approach for the calculation of contribution rates, which allowed for thousands of possible future economic scenarios when assessing the likelihood of contributions being sufficient to meet liabilities over a given time horizon. As GMPF had 470 active employers at the valuation date, many with common characteristics, they had been placed in groups and categorised as low risk, low/medium risk, medium risk or high risk.

Local authority contribution rates and results for other large employers were outlined in the report. It was confirmed that some contribution rates were yet to be confirmed as they required the approval of the guarantor to the admission arrangement whilst some rates were subject to confirmation of proposed changes to investment strategy. It was noted that the pool of sixth-form colleges had broken up due to several of them applying for academy status and possible future mergers with employers outside of the pool. A Greater Manchester Combined Authority pool would be created consisting of the employers that will be subsumed by the Greater Manchester Combined Authority following the Mayoral election later this year.

RECOMMENDED:
That the report be noted.

23. MEDIUM TERM FINANCIAL PLANNING

The Assistant Executive Director of Pensions (Local Investments and Property) submitted a report seeking approval for the GMPF 2017/18 expenditure budget, which would be sent to the Management Panel along with a medium term financial plan for 2017-2020 that would be produced following the completion of the actuarial valuation and approval of the budget.

It was reported that the medium term financial plan was dependent upon the assumptions in the funding strategy statement and the out-turn was largely subject to financial markets and their impact on investment performance. The Fund investment return was assumed to be 4.2% per annum over the long term, inflation was based on the consumer price index Bank of England forecast.

The report detailed the changes in the 2017/18 budget compared to the 2016/17 budget, as follows:-

- investment management;
- staffing; and
- property.

With regards to investment management the budget reflected the implementation of new investment strategies designed to optimise net risk adjusted returns on investments and renegotiation of some investment management fees. For staffing the changes reflected the requirements to oversee the new investment strategies and to provide administration services for the Fund now that three different schemes were in operation, the number of employers had increased and a need to formally reconcile guaranteed minimum pensions.

Other changes to the 2017/18 budget were outlined and included an allowance for professional fees in relation to investment pooling. The budget estimate for 2017/18 was £29.5 million, an increase of £1.4 million due to the incorporation of the proposed changes outlined above.

It was stated that the Executive Director of Pensions intended to review all budgets in 2017/18 with a zero based budget approach to ensure achieving value for money and effective use of resources.

RECOMMENDED:
(i) That the 2017/18 expenditure budget be approved;
(ii) That the assumptions for medium term financial planning be approved;
(iii) That the 2017/18 expenditure budget and the medium term financial plan be presented at the Management Panel; and
(iv) That the intention to review all budgets in 2017/18 with a zero based budget approach be noted.

24. GMPF ADMINISTRATION EXPENDITURE MONITORING STATEMENT FOR THE 8 MONTHS TO NOVEMBER 2016

The Assistant Executive 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 2016.

Actual expenditure was £2.605 million less than the estimate of £17.916 million for the same period. The main reasons for major variations were listed and included staff costs, lower than expected utility and security charges and lower than budgeted manager's fees.

RECOMMENDED:
That the report be noted.

25. GMPF AGED DEBT AS AT 19 DECEMBER 2016

The Assistant Executive Director of Pensions (Local investments and Property) submitted a report summarising the aged debt for the Fund as at 19 December 2016. 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. 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) alongside comparison to the previous quarter; total aged debt was £2.926 million at 19 December 2016 compared to £1.671 million at 19 September 2016. The key trends were highlighted and included, property aged debt had decreased from £0.331 million in September 2016 to £0.271 million at December 2016 and Employer and Overpaid Pension Aged Debt had increased from £1.339 million to £2.655 million. The bulk of Employer debt related to invoices that had been issued in respect of early retirement strain costs.

It was reported that due to the changes in the nature of ill-health retirements, discussions were ongoing with employers with regards to implementing insurance related to ill-health retirements.

This was particularly pertinent for smaller employers where an ill-health retirement could have a big impact.

Members enquired if interest was applied to the debt, it was confirmed that interest was not currently applied but GMPF reserved the right to. The Executive Director of Pensions advised that a review of the invoicing process would be undertaken with a view to implementing an escalation procedure.

For the 12 months to December 2016 4.7% of debt was outstanding, the proportion of the debt considered at risk of non-payment was 0.3%.

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 explained to the Group.

RECOMMENDED:
That the report be noted.

26. URGENT ITEMS

There were no urgent items.