

ITEM NO: 5(b)

GREATER MANCHESTER PENSION FUND

ETHICS AND AUDIT WORKING GROUP

8 April 2011

Commenced: 10.45am

Terminated: 12.30pm

Present: Councillor Middleton (Chair)
Councillor Ambler
Councillor White
Councillor W Harrison
Councillor Mitchell
Councillor Pantall
Mr Fraser GMB
Mr Llewellyn TGWU
John Harrison Audit Commission
Peter Morris Executive Director of Pensions
Steven Taylor Head of Pension Fund Investments
Tracey Boyle Head of Pension Fund Accountancy
Raymond Holdsworth Pension Fund Investments Team
Tom Harrington Pension Fund Investments Team
Christine Weston Internal Audit
Victoria Plackett Pension Fund Accountancy

Apologies for absence: Councillors P Harrison and Sullivan

41. DECLARATIONS OF INTEREST

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

42. MINUTES

The Minutes of the proceedings of the meeting of the Ethics and Audit Working Group held on 21 January 2011 were approved as a correct record, with the addition of Councillor Mitchell to the list of persons submitting apologies.

43. RISK MANAGEMENT AND INTERNAL AUDIT SERVICES – UPDATE REPORT TO 18 MARCH 2011

Consideration was given to a report of the Borough Treasurer which summarised risk management and internal audit work carried out in the period ending 18 March 2011. It also provided details of

further reviews, investigations, checks and other Internal Audit activities up to the end of December 2010.

With regard to work carried out this quarter, it was reported that six draft reports had been issued and nine reports finalised. The key issues arising from the final reports were detailed and discussed.

In addition, the report detailed work in progress as follows:

- Debtors;
- GMPFV – Appointment of the Main Contractor; and
- Review of Fund Manager (UBS)

RECOMMENDED

That the report be noted.

44. DRAFT INTERNAL AUDIT PLAN 2011/12

Consideration was given to a report which presented the proposed annual audit plan for 2011/12.

A copy of the plan was appended to the report.

RECOMMENDED

That the report be noted.

45. GMPF ADMINISTRATION EXPENDITURE MONITORING STATEMENT FOR THE 11 MONTHS TO FEBRUARY 2011

The Executive Director of Pensions submitted a report which compared the administration expenses budget against the actual results for the eleven months to February 2011. In the eleven months to 28 February 2011 there was an underspend of £60,000 against the budget of £11,440,000 for that period. The main reasons for the variation related to issues concerning managers/professional fees and turnover and delay in the appointment of staff.

The details of a subjective analysis contained in the report were discussed.

RECOMMENDED

That the report be noted.

46. AGED DEBT FOR 11 MONTHS AS AT 28 FEBRUARY 2011

A report was submitted by the Executive Director of Pensions which showed that the value of aged debt for the fund as at 28 February 2011 was £3.48 million, which was updated at the meeting to £1.2 million. The Head of Pension Fund Accountancy informed members that the main reason for the increase in debt was timing, with the December figures incorporating the new quarter's rent payable from 25 December 2010 most of which had now been settled. The previous quarters debt position was distorted to show a higher than actual debt figure due to the Christmas break occurring at the quarter end date and monies paid into the bank during the holiday period which had not been allocated at the reporting date. She also commented on a new section in the report that showed the scale and speed of debt recovery for invoices raised on 25 December. This illustrated that 93% of invoices were paid within the quarter.

She also advised that the environment remained difficult for many of the Fund's debtors. The debt recovery process was considered to be working relatively well but recovery continued to be difficult

as some tenants struggled to pay. Where considered appropriate, payment plans and monthly billing had been agreed with the tenant to help them work through difficult trading conditions.

Material increases in early retirements continued to be forecast, and thus increased costs for employers where the capital cost of such retirements could not be met from within their 'budget provision'. Some terminations of admitted body agreements were envisaged that would lead to significant additional costs that would need to be recovered from employers.

The range of debt recovery activity remained likely to increase in the near term, bringing with it some complex issues to address in pursuing recovery. Decisions on appropriate action continued to be property and tenant specific, reflecting the local circumstances.

RECOMMENDED

That the report be noted.

47. UNCLAIMED BALANCES

Consideration was given to a report of the Executive Director of Pensions which explained that when members opted out of the Fund during their first three months of membership, they did so retrospectively. Any pension contributions that the employees had paid during their employment were refunded to them by their employers. However, some people joined, did not opt-out, worked for a short period and then disappeared. When this happened the Fund was left with small amounts from their employee contributions. These sums were known as unclaimed balances.

It was reported that the current policy regarding attempting to trace such people was not to pursue if the amount held was less than £25. If the member came forward the sum outstanding would be repaid immediately. But if the amount was £25.01 or more, and no further contact had been made by the person by the time they reached state pension age, the Fund would attempt to trace the individual via the DWP's letter-forwarding service, for which there was a £4 charge, necessitating cheque requisitions and associated paperwork.

There is currently a minimum invoice limit of £50 for overpaid pensions, increased by inflation each year. For 2011/12 the limit was £62, and it was proposed that where the amount held was for £62 or more, attempts would be made to try and find the person. However where it was less than this amount the contributions would be held until/if the person re-joins the fund, asks for a transfer or comes forward in some other way.

Discussion ensued with regard to this issue and Members agreed that the minimum invoice limit of £50 should be increased, but to more than the suggested amount of £62, it was, therefore:

RECOMMENDED

That unclaimed balances of less than £100 (revised each year in line with CPI), be held until they are claimed without any proactive attempts being made to find the potential claimant.

48. REVIEW OF PENSION PAY DATE FOR NEW PENSIONERS

The Executive Director of Pensions submitted a report which provided information about the history of why pensions were currently paid in advance, the costs involved, and how this practice could be changed for new pensioners.

It was explained that historically pensions were paid at the beginning of the month. Over the long term, the Fund was expected to obtain approximately 5% on cash investments. The current gross monthly payroll amounted to approximately £31,500,000 (and rising). Consequently were pensions to be paid at the end of the month, extra income could be provided as this amount could be invested for a month longer.

Another consequence of paying pensions in advance was that overpayments must arise. For example, someone who is alive on the 1st of the month receives the payment for that entire month, however, should he die on the 15th then he has been overpaid in respect of the second half of the month.

No change was proposed for existing pensioners, some of whom may be very elderly, been collecting the pension for a considerable period of time and may have bank payments linked to the 1st of the month. Therefore, it would be necessary to run two payrolls; new pensions at the end of the month and existing pensions continuing to be paid on the first working day of the month. There are some additional costs in running two payrolls, but these costs would not be significant in the medium term relative to the anticipated savings.

RECOMMENDED

That an arrears payroll be introduced during Quarter 4 of 2011/12 for new pensions.

49. RECOMMENCEMENT OF THE STOCKLENDING PROGRAMME

A report was submitted by the Executive Director of Pensions which informed Members that the Fund had operated an agent stocklending programme with its custodian bank JPMorgan since March 2003.

It was explained that, on 15 September 2008, Lehman Brothers Holdings Inc filed for US Chapter 11 bankruptcy protection. The protection arrangements within the stocklending programme operated largely as expected. There was no loss to the Fund.

Given the financial turmoil, officers took the view that their attention would be best applied dealing with the significant wider issues relating to investment matters, asset security and risk management. Consequently, the decision was taken under delegated powers to suspend the stocklending programme, effective 19 September 2008.

Officers' confidence had now been restored as a result of the thorough work conducted during a recommencement review and it was intended to recommence the programme imminently.

In response to a question from Members, the Head of Pension Fund Investments explained the stocklending process. Further to this, the Chair requested a training session for all Members on the operation and regulation of the Stock Exchange. The Executive Director of Pensions indicated that the training of Members was about to be reviewed and knowledge in relation to the Stock Exchange would feature in the refreshed approach.

RECOMMENDED

That the content of the report and the imminent recommencement of the programme be noted.

50. UBS CORPORATE GOVERNANCE REVIEW

Mr Pitfield of UBS Global Asset Management Limited attended the meeting and gave an overview of Corporate Governance activity over the last twelve months, circulating a written summary thereof.

Mr Pitfield explained that good Corporate Governance should lead to better corporate performance and improved shareholder value. He stressed the importance of an effective Chairman, stating that this was key to an effective Board. The approach of UBS to Corporate Governance was also detailed which involved engagement, usually with the Chairman and informed voting at meetings globally. Mr Pitfield presented statistics regarding UBS voting activity on behalf of GMPF for the 12 months to 31 December 2010, as follows:

- Voted at 299 meetings globally; and
- Voted against management or abstained at 86 meetings.

Mr Pitfield then gave a specific update with regard to a company within the UBS UK portfolio and explained the background to the business, the difficulties/issues they had experienced and the reasons why they were currently under investigation/review. He added that it would be a further two years before the investigations were complete.

Examples of engagements with both smaller and larger companies were also detailed and a wide ranging discussion took place on the content of UBS' report.

RECOMMENDED

That the presentation be noted.

51. UBS REPORT ON TRADING COSTS

Mr Pitfield presented GMPF's IMA Level Two Report for the 12 month period ending 31 December 2010.

RECOMMENDED

That the report be noted.