

# ITEM NO: 5(b)

## GREATER MANCHESTER PENSION FUND

### ETHICS AND AUDIT WORKING GROUP

21 January 2011

Commenced: 10.10am

Terminated: 12.40pm

Present: Councillor Middleton (Chair)

Councillor Ambler

Councillor White

Mr Fraser GMB

Mr Llewellyn TGWU

Mr Mulryan AMICUS

Linda Kettles Audit Commission

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

### 30. DECLARATIONS OF INTEREST

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

### 31. MINUTES

The Minutes of the proceedings of the meeting of the Ethics and Audit Working Group held on 22 October 2010 were approved as a correct record.

### 32. RISK MANAGEMENT AND INTERNAL AUDIT SERVICES – UPDATE REPORT FOR THE QUARTER ENDING 31 DECEMBER 2010

Consideration was given to a report of the Borough Treasurer which summarised risk management and internal audit work carried out in the period ending 31 December 2010. It also provided details of further reviews, investigations, checks and other Internal Audit activities up to the end of December 2010.

Work carried out in the quarter was detailed as follows:

- Property disposals;
- Overpayment of pensions;

- Cash receipting – Mentec; and
- Visits to contributing bodies – Salford City Council, Stockport MBC, City West Housing and Salford City College.

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

- Debt recovery;
- Private Finance Initiatives/Infrastructure Portfolio;
- Value Added Tax; and
- Visits to contributing bodies – Better Choices, Trafford Housing, Oldham MBC and Tameside MBC.

## **RECOMMENDED**

**That the report be noted.**

### **33. 2010/11 EXTERNAL AUDIT PLAN**

The Executive Director of Pensions submitted the report of the Audit Commission, which set out the external auditor's approach to the 2010/11 audit. Linda Kettles of the Audit Commission provided further background on the approach. It was reported that the estimated audit fee for 2010/11 was £70,900.

She also made reference to the Government's announcement in August 2010 that the Audit Commission would be disbanded but details of the establishment of a new decentralised audit regime had yet to be published.

## **RECOMMENDED**

**That the report be noted.**

### **34. GMPF ADMINISTRATION EXPENDITURE MONITORING STATEMENT FOR THE EIGHT MONTHS TO NOVEMBER 2010**

The Executive Director of Pensions submitted a report which compared the administration expenses budget against the actual results for the eight months to November 2010. In the eight months to 30 November 2010 there was an underspend of £145,000 against the budget of £8,323,000 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.**

### **35. AGED DEBT MONITORING FOR NINE MONTHS TO 31 DECEMBER 2010**

A report was submitted by the Executive Director of Pensions which showed that the value of aged debt for the fund as at 31 December 2010 was £10.25 million, which was updated at the meeting to £3.4 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 which had been compounded by the Christmas break and monies paid into the bank during the holiday period were currently being allocated against outstanding invoices.

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.

The forecast reductions in public expenditure were likely to result in material increases in early retirements and this would lead to increased expenditure for employers to meet capital costs of such retirements where it cannot be met from within their 'budget provision'. In this respect, the Head of Pensions Investments advised that a new default arrangement for employers had been introduced to assist employers in adapting to this change as retirement dates become more fluid by smoothing payment over a longer period.

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.**

### **36. PROPOSED WORK PROGRAMME TO ENHANCE THE COMPLIANCE MANAGEMENT OF THE GMPF**

The Executive Director of Pensions presented a report which followed on from an earlier report considered by the Ethics and Audit Working Group on 22 October 2010 (Minute 25 refers) about understanding the high level risks faced by the Pension Fund as reflected in non compliance with certain aspects of important industry guidance and best practice. The report set out a prioritised work programme to enhance the compliance management of the Fund.

#### **RECOMMENDATION**

**That the prioritised work programme set out in Appendix A to the report, and attached hereto, be endorsed by the Working Group.**

### **37. GMPF STATEMENT OF COMPLIANCE WITH THE UK STEWARDSHIP CODE**

Further to discussions at the Ethics and Audit Working Group held on 22 October 2010 (Minute 28 refers) the Executive Director of Pensions submitted a report which detailed a draft statement of compliance with the UK Stewardship Code for endorsement by the Working Group. The statement had been produced in accordance with the guidance published by the Financial Reporting Council on a "comply or explain" basis and was based upon a generic template supplied by the Local Authority Pension Fund Forum, of which the Greater Manchester Pension Fund was a member.

The Fund considered itself to be broadly compliant with the Code. It was noted that areas where the Fund was not fully compliant would be considered by the Fund in the future and included the public reporting and disclosure of its voting and engagement activities.

#### **RECOMMENDATION**

**That the Working Group recommends the adoption of the draft Statement of Compliance with the UK Stewardship Code, as set out in Appendix B to the report and attached hereto, by the Management Panel.**

### **38. LEGAL AND GENERAL CORPORATE GOVERNANCE REVIEW**

Helen Gaukrodger, Client Relationship Manager, and Andy Banks, Head of Corporate Governance, Legal and General, attended the meeting to report on their approach to passive investment management and in particular to Corporate Governance.

Ms Gaukrodger began by explaining their pragmatic approach to index tracking and ways in which they could add value and made reference to index fund performance data from 2006 to 2010.

Mr Banks explained the structure and role of the Corporate Governance Team and its activity during 2010 was detailed and discussed as follows:

- Industry developments;
- Voting coverage;
- Engagement;
- UK Stewardship Code;
- UN Principles of Responsible Investment; and
- Case studies.

Members raised a number of questions to which Legal and General responded.

#### **RECOMMENDED**

**That the content of the presentation be noted.**

### **39. GLOBAL INVESTOR STATEMENT ON CLIMATE CHANGE: REDUCING RISKS, SEIZING OPPORTUNITIES AND CLOSING THE CLIMATE INVESTMENT GAP**

Consideration was given to a report of the Executive Director of Pensions which advised that the 'Global Investor Statement on Climate Change: Reducing Risks, Seizing Opportunities and Closing the Climate Investment Gap' had been produced by a collection of bodies representing institutional investors from around the world, setting out their perspective on climate change and the key elements of a global agreement that would drive the financial flows necessary to address climate change.

The Greater Manchester Pension Fund, as a member of the Institutional Investors Group on Climate Change, had signed up to the Statement, which had 259 signatories as at 16 November 2010. This was the second such Statement that the Fund had signed up to and Members were advised that issues surrounding the first Statement published in September 2009, had been considered at the 23 October 2009 meeting of the Working Group (Minute 18 refers).

The Statement had been sent to policymakers globally and had also gained widespread press coverage. It was designed to influence decision makers ahead of the United Nations Climate Conference in Cancun on 29 November to 10 December 2010. A copy of the Statement and the list of signatories, which it was also intended to publish on the Fund's website, was appended to the report. A summary of the Statement outlining what investors were calling for was also provided.

#### **RECOMMENDED**

- (i) That the report be noted.**
- (ii) That a copy of the latest Statement be published on the Greater Manchester Pension Fund's website.**

### **40. ROUTINE PIRC UPDATE**

Alan McDougall and Janice Haywood of PIRC Ltd attended the meeting and advised that the Government's Business Secretary, Vince Cable, had launched an investigation into short-termism. The review, "A Long-Term Focus for Corporate Britain", sought views through a number of consultation questions covering four separate areas of interest:

- The role of boards;
- Shareholders and markets;

- Remuneration; and
- Takeovers.

Mr McDougall stated that the decision to undertake the review was helpful as it underlined the importance of issues relating to company ownership and governance but he was not expecting that it would result in a radical shift of policy.

He also outlined the role of PIRC in providing services and research to institutional investors on corporate governance and corporate social responsibility and the role of the Local Authority Pension Fund Forum formed in 1990 bringing together a range of local authority pension funds.

**RECOMMENDED**

**That the report be noted.**