

ITEM NO: 5(a)

GREATER MANCHESTER PENSION FUND

ETHICS AND AUDIT WORKING GROUP

22 January 2010

Commenced: 10.10am

Terminated: 12.40pm

Present: Councillor Middleton (Chair)

Councillor Harrison

Councillor Mitchell

Councillor Pantall

Councillor Sidebottom

Councillor K Welsh

Mr Llewellyn

Mr Mulryan

L. Kettles

Audit Commission

P Morris

Executive Director of Pensions

S Taylor

Head of Pension Fund Investments

T Boyle

Head of Pension Fund Accountancy

T Harrington

Pension Fund Investments Team

C Weston

Internal Audit

20. MINUTES

The Minutes of the proceedings of the meeting of the Ethics and Audit Working Group held on 30 October 2009 were approved as a correct record.

21. DECLARATIONS OF INTEREST

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

22. RISK MANAGEMENT AND INTERNAL AUDIT SERVICES – UPDATE REPORT FOR THE QUARTER ENDING DECEMBER 2009

Consideration was given to a report of the Borough Treasurer which summarised risk management and internal audit work carried out in the period to the end of December 2009. It also provided details of further reviews, investigations, checks and other Internal Audit activities up to the end of December 2009.

It was reported that thirteen reports had been issued and five reports finalised. The key issues arising from the final reports were detailed and discussed.

The report detailed work in progress as follows:

- Custodian arrangements;
- Visits to contributing bodies;
- Managed Audit – Contribution Income;
- Managed Audit – Pension Payroll;
- Managed Audit – General Ledger; and
- Bank Reconciliations.

It was further reported that seven Post Audit Reviews (PAR) had been completed, details of which were appended to the report.

Also appended to the report was a summary of invoices raised in relation to overpayments as a result of the Fund not having been informed of the death of a pensioner.

With regard to investigation work, there had been no investigations reported or identified in relation to the Pension Fund in the quarter.

Linda Kettles of the Audit Commission circulated a document; 'Protecting the Public Purse', for Members information.

RECOMMENDED

That the report be noted.

23. GMPF ADMINISTRATION EXPENDITURE MONITORING STATEMENT FOR THE EIGHT MONTHS TO NOVEMBER 2009

The Executive Director of Pensions submitted a report which compared the administration expenses budget against the actual results for the eight months to November 2009.

In the eight months to 30 November 2009 there was an underspend of £1,144,000 against the budget of £9,378,000 for that period. The main reasons for the underspend 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.

24. GMPF ADMINISTRATION EXPENSES BUDGET 2010/2011

Consideration was given to a report of the Executive Director of Pensions which outlined the 2009/2010 revised estimate and the 2010/2011 original estimate for the fund's cost of administration.

RECOMMENDED

That the budget for 2010/11 at £12.9m be approved.

25. AGED DEBT MONITORING FOR NINE MONTHS TO 31 DECEMBER 2009

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 2009 was £8.81 million, which was updated at the meeting to £2.2 million. The Head of Pension Fund Accountancy informed members that approximately £900,000 of this was below 30 days old and approximately £1 million of the debt was due to tenants being in administration/receivership.

RECOMMENDED

That the report be noted.

26. ACTUARIAL VALUATION

The Executive Director of Pensions delivered a presentation which outlined the difficult environment for western economies and the public sector and the impact such events have had on pension fund funding levels.

He outlined the fund valuation from 2007 through to the present day and detailed the actuarial financial assumptions and funding level in 2007. Estimates of the 2010 funding level were also outlined based on different scenarios for interest rates and stock market valuations.

The outlook for contribution rates was examined and the impact on employer contribution rates was discussed. It was reported that for Local Authorities and other secure employers, increases of 1% year on year had been advised. However, less secure employers were being advised of the possibility of significantly higher increases.

The Executive Director of Pensions stressed the importance of employer security as it allowed a longer term perspective to be taken in determining contributions. He added that for less secure employers very complex issues would arise regarding affordability with the need to return to full funding sooner.

With regard to the impact on employers, it was reported that less secure employer increases could be more than double Local Authority increases and could be significantly more in exceptional circumstances.

Factors effecting both the scale of increase and assistance for individual employers were explored.

In summary, the Executive Director of Pensions confirmed that the Greater Manchester Pension Fund was amongst the best funded Local Government Pension Scheme funds and the average Greater Manchester Pension Fund employer contribution rate would compare favourably with other local authorities. He reported that an increase would be required for nearly all employers and that decisions would be complex in many cases. Measures that would improve the position for employers were being considered/evaluated.

RECOMMENDED

That the content of the presentation be noted.

27. RECOVERY OF WITHHOLDING TAXES ON MANUFACTURED OVERSEAS DIVIDENDS ARISING FROM STOCKLENDING

Consideration was given to a report of the Executive Director of Pensions which advised members of the Working Group of a potential claim against HM Revenue and Customs (HMRC) in respect of withholding taxes suffered on manufactured overseas dividends arising from stocklending.

RECOMMENDED

That the report be noted.

28. LEGAL AND GENERAL – CORPORATE GOVERNANCE REVIEW

Sharon Niebergall and Mark Burgess of Legal and General attended the meeting to report on their approach to passive investment management and in particular to Corporate Governance.

Mr Burgess began by explaining their competitive advantage in the UK where they had the biggest impact and a very meaningful relationship with “Corporate UK”.

The structure of the Corporate Governance Team was explained and its mission statement and aims and objectives discussed.

He explained the sources for the identification of contentious issues and the procedure for engagement.

Corporate Governance Activity during 2009 was detailed and it was noted that voting activity increased significantly during 2009 and that the majority of adverse votes were focused on remuneration.

Examples of Legal and General’s engagement with companies were also provided.

RECOMMENDED

That the content of the presentation be noted.

29. LGPS (MANAGEMENT AND INVESTMENT OF FUNDS) REGULATIONS 2009

The Executive Director of Pensions submitted a report which advised members of the new Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 which came into force on 1 January 2010.

The report summarised the substantive changes in the new regulations as follows:

- A longstanding provision which allowed an Administering Authority to use money from its pension fund had been revoked;
- There was a new requirement for each pension fund to have, by 1 April 2011, a bank account which was separate from any which the Administering Authority had in its capacity as a local authority. (The Fund’s banking arrangements have long been compliant with this requirement.);
- The regulations regarding stocklending had been updated to refer to the relevant Financial Services Authority Sourcebook, as modified to specifically reflect the Local Government Pension Scheme context;
- The new regulations gave Administering Authorities an explicit limited power to borrow on behalf of the pension scheme for up to 90 days; and
- The regulations specify additional mandatory content for an Administering Authority’s Statement of Investment Principles (SIP), regarding information on any stocklending activity and on the ways in which risk was measured and managed. (The Fund’s updated Statement of Investment Principles would be presented for approval at the next meeting of the Ethics and Audit Working Group.)

RECOMMENDED

That the report be noted.

30. ROUTINE PIRC UPDATE

Alan McDougall and James O’Loughlin of PIRC Ltd attended the meeting and gave a presentation on a report entitled “A Way Forward on Executive Remuneration”.

RECOMMENDED

That the report be noted.

