

ITEM NO: 5(b)

GREATER MANCHESTER PENSION FUND

ETHICS AND AUDIT WORKING GROUP

22 October 2010

Commenced: 10.00am

Terminated: 12.30pm

Present: Councillor J Middleton (Chair)

Councillor Ambler

Councillor P Harrison

Councillor W Harrison

Councillor Mitchell

Councillor Sullivan

Councillor White

Mr Llewellyn

Peter Morris

Steven Taylor

Tracey Boyle

Tom Harrington

Raymond Holdsworth

Christine Weston

John Harrison

TGWU

Executive Director of Pensions

Head of Pension Fund Investments

Head of Pension Fund Accountancy

Pension Fund Investments Team

Pension Fund Investments Team

Internal Audit

Audit Commission

Apologies for absence: Councillor Pantall

20. DECLARATIONS OF INTEREST

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

21. MINUTES

The Minutes of the proceedings of the joint meeting of the Information Services and Ethics and Audit Working Groups held on 23 July 2010 were approved as a correct record, with the addition of Councillor W Harrison to list of those submitting apologies.

22. RISK MANAGEMENT AND INTERNAL AUDIT SERVICES – UPDATE REPORT FOR THE QUARTER ENDING 30 SEPTEMBER 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 30 September 2010. It also provided details of further reviews, investigations, checks and other Internal Audit activities up to the end of September 2010.

Work carried out in the quarter was detailed as follows:

- HSBC Accounting System; and
- Visits to contributing authorities: Bury MBC, Taylor Shaw, Manchester City Council, Hollingworth College, Wigan and Leigh College.

The report detailed work in progress as follows:

- Private Finance Initiatives/Infrastructure Portfolio;
- Cash Receipting – Mentec;
- Property Acquisitions and Disposals;
- Debt Recovery;
- Visits to Contributing Bodies – Oldham MBC;
- Visits to Contributing Bodies – Tameside MBC; and
- Visits to Contributing Bodies – Better Choices.

With regard to investigation work, it was reported at the last meeting that four cases were under investigation which were identified by the National Fraud Initiative. It was reported that progress had been made on two of these cases and prosecution files had been prepared and were currently with the Legal Services Section for their consideration. A further update on these cases would be brought to the next meeting.

The other two cases had been closed as there was insufficient evidence to prove who had the monies.

Members sought further clarification with regard to over payment of pension through death and the process used to determine whether a pensioner living overseas was still alive.

RECOMMENDED

That the report be noted.

23. GMPF ADMINISTRATION EXPENDITURE MONITORING STATEMENT FOR THE FIVE MONTHS TO AUGUST 2010

The Executive Director of Pensions submitted a report which compared the administration expenses budget against the actual results for the five months to August 2010.

In the five months to 31 August 2010 there was an underspend of £127,000 against the budget of £5,477,000 for that period. The main reasons for the underspend related to issues concerning managers and professional fees and turnover and delay in the appointment of staff.

RECOMMENDED

That the report be noted.

24. GMPF AGED DEBT FOR SIX MONTHS TO 30 SEPTEMBER 2010

A report was submitted by the Executive Director of Pensions which showed that the value of aged debt for the fund as at 30 September 2010 was £8.27 million, which was updated at the meeting to £3.2 million. It was explained that the main reason for the increase in debt was timing, with the September figures incorporating the new quarter's rent payable from 29 September.

It was reported 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 hopefully help them work through difficult trading conditions.

The forecast reductions in public expenditure over the next 3 years were likely to result in material increases in early retirements and this would lead to increased costs for employers to meet capital cost of such retirements where it can not be met from within their 'budget provision'. Some terminations of admitted body agreements were also expected that would lead to significant additional costs that needed to be recovered from employers.

The range of debt recovery activity was likely to increase in the near term and there would be some complex issues to address in pursuing recovery.

The Head of Pension Fund Accountancy also made reference to Trace Smart, a mortality screening service. She explained that Trace Smart was linked to the General Registry Office and supplied details of deaths in the UK, these details included date of death, address and date of birth which could all be used to data match to GMPF records.

RECOMMENDED

That the report be noted.

25. UNDERSTANDING THE RISKS FACED BY THE PENSION FUND

Consideration was given to a report of the Executive Director of Pensions which outlined a number of recent initiatives each of which, in part, related to the high level risks facing the Pension Fund and other LGPS funds. A 'Gap' analysis revealed a number of areas which were proposed for consideration in order to try to mitigate these risks wherever possible.

The report outlined GMPF's current approach to risk management as set out in the Statement of Investment Principles and the Funding Strategy Statement.

The Head of Pension Fund Investments explained that the most comprehensive and directly relevant guidance was that provided by a CIPFA publication; 'Investment decision making and disclosure in the Local Government Pension Scheme – A Guide to the Application of the Myners Principles'. Therefore, the report compared GMPF's current practice with the 'best practice' as advocated by the initiatives and made proposals for consideration where this was considered appropriate in order to bridge the 'gap' between GMPF's current practices and CIPFA guidance.

The report outlined six CIPFA/Myners Principles and set out proposals for consideration for each one.

Discussion ensued with regard to the above and it was:

RECOMMENDED

- (i) That the issues raised with regard to the 'Gap Analysis' be considered by the Working Group; and**
- (ii) That a further report be considered by the Working Group at the next meeting that prioritises the work programme arising from the matters raised and advocated in Section 6 of the report.**

26. CAPITAL INTERNATIONAL – CORPORATE GOVERNANCE REVIEW

Ida Levine, Richard Carlyle, Rob Beale and Louise Abram of Capital International attended the meeting and gave an overview of Corporate Governance activity over the last twelve months.

The Capital approach to proxy voting and the voting statistics of Capital at company meetings worldwide for the 12 months to 30 September 2010 were detailed.

Mr Carlyle gave an update on regulation and governance developments in the financial sector.

Examples of Capital's engagement with companies were also provided.

A wide ranging discussion took place on the content of Capital's report.

RECOMMENDED

That the content of the presentation be noted.

27. CAPITAL INTERNATIONAL REPORT ON TRADING COSTS

Louise Abram presented GMPF's IMA Level Two Report for the 12 month period ending 30 June 2010, and responded to questions thereon.

RECOMMENDED

That the report be noted.

28. UK STEWARDSHIP CODE

A report was submitted by the Executive Director of Pensions which provided Members with an update regarding the UK Stewardship Code.

Industry and Fund Manager responses to the Code were detailed and it was reported that all three of the Fund's external Fund Managers had now published statements regarding their compliance with the Code, which were appended to the report.

RECOMMENDED

- (i) That the content of the report be noted; and**
- (ii) That a draft version of the Fund's statement of adherence to the Code be presented to the December meeting of the Panel for adoption.**

29. ROUTINE PIRC UPDATE

Alan McDougall and Janice Hayward of PIRC Ltd attended the meeting and reported on PIRC and the Stewardship Code.