

# ITEM NO: 5(a)

## GREATER MANCHESTER PENSION FUND

### ETHICS AND AUDIT WORKING GROUP

24 July 2009

Commenced: 10.00am

Terminated: 12.20pm

Present: Councillor Middleton (Chair)  
Councillor Mitchell  
Councillor Pantall  
Mr Llewellyn  
P Morris Director of Pensions  
S Taylor Head of Pension Fund Investments  
T Boyle Head of Pension Fund Accountancy  
T Harrington Pension Fund Investments Team  
N Charnock Pension Fund Legal  
L Kettles District Audit  
C Weston Internal Audit

Apologies for absence: Councillors: Harrison, Sidebottom, K Welsh and Mr Mulryan

#### 1. CHAIR'S OPENING REMARKS

The Chair reported with great sadness on the recent death of Councillor Martin Wareing. He stated that the death of Councillor Wareing would be a great loss to all who had the pleasure of meeting and working with him.

The Chair requested that those present stand in silence for a few moments, as a mark of respect for the late Councillor Martin Wareing.

#### 2. MINUTES

The Minutes of the proceedings of the meeting of the Ethics and Audit Working Group held on 17 April 2009 were approved as a correct record, with the addition of L Kettles and C Weston to the list of persons present and the addition of Councillor Mitchell to the list of persons submitting their apologies.

#### 3. RISK MANAGEMENT AND INTERNAL AUDIT SERVICES ANNUAL REPORT

Consideration was given to a report of the Borough Treasurer which summarised the work performed in 2008/09 and provided assurances as to the adequacy of the Pension Fund's systems of internal control.

The report explained that of the work undertaken on the financial systems of the Pension Fund, Internal Audit was satisfied that they were being properly managed, fit for purpose and operating within an effective control environment.

Work undertaken on other systems, where concerns were raised with management, they would be followed up as part of the post audit review process. The matters considered in an audit report were revisited six months after the final report was issued to ensure that the agreed recommendations had been implemented. As positive responses were received to all recommendations made, Internal Audit was confident that all control weaknesses highlighted would be improved within the required six months. Failure to satisfactorily implement audit recommendations would be reported to future meetings of the Ethics and Audit Working Group.

The overall Audit Opinion on the Control Environment for 2008/09 based upon the audit work undertaken was adequate and effective. Whilst areas for improvement had been highlighted, management had in all cases agreed to implement the suggested recommendations which would improve the overall control environment

#### **RECOMMENDED**

**That the report and the overall audit opinion on the control environment for 2008/2009 be noted.**

#### **4. RISK MANAGEMENT AND INTERNAL AUDIT SERVICES UPDATE 2009/10 AUDIT PLAN**

Consideration was given to a report of the Borough Treasurer which summarised risk management and internal audit work carried out in the first quarter of 2009/10. Some of the work carried out in the quarter relates to finishing off work from the 2008/09 Plan.

It was reported that 9 reports had been issued in the period, of which six had been finalised.

The report detailed work in progress as follows:

- Managing Agents (including Business Continuity Plans);
- Service Charges;
- Overseas Payments;
- Pension Fund Governance; and
- Visits to Contributing Bodies.

With regard to the National Fraud Initiative (NFI), the data received back from the Audit Commission produced three different reports for investigation in relation to the Pension Fund:

- Pensions to DWP Deceased;
- Deferred Pensions to DWP Deceased;
- Payroll Pensions to Payroll.

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

#### **RECOMMENDED**

**That the report be noted.**

#### **5. GMPF ADMINISTRATION EXPENDITURE MONITORING STATEMENT FOR THE TWO MONTHS TO MAY 2009**

The Director of Pensions submitted a report which detailed the administration expenses incurred by the Fund for the two months to 31 May 2009. Comparison was made against the budget for the

same period of £2,289,000 which was derived from the Original Estimate for 2009/2010 approved by the Members at the Management Panel meeting of 6 March 2009.

In the two months to 31 May 2009 there was an underspend of £269,000 against the budget of £2,289,000 for that period.

Reasons for major variations were detailed in the report.

The Head of Pension Fund Investments made reference to the Fund's imminent renewal of its LAPFF membership and stated that it was intended to subscribe for a further 3 years and that budgetary provision had been made for this.

**RECOMMENDED**

**That the report be noted.**

**6. GMPF AGED DEBT FOR THREE MONTHS TO 30 JUNE 2009**

A report was submitted by the Director of Pensions which showed that the value of aged debt for the Fund as at 30 June 2009 was £6.4 million as at the time of writing of the report. The Head of Pension Fund Accountancy informed members at the meeting that this figure had reduced and was currently £1.5 million.

It was also explained that there were a number of tenants currently in liquidation/receivership/administration, therefore there may be a need to increase the 'write off' provision next year.

**RECOMMENDED**

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

**7. HIGHLAND COUNCIL PENSION FUND – INVESTMENT IN TOBACCO STOCKS**

Consideration was given to a report of the Director of Pensions which gave details of their position with regard to the making of investments in tobacco stocks.

It was reported that Highland Council recently considered their approach to ethical investing, specifically relating to the tobacco sector and focussed on the legal position in two meetings in March and May 2009.

At the first meeting, it was noted that the Highland Council Pension Fund had a holding in tobacco stocks. Concerns were raised by members regarding this holding on ethical grounds. As a consequence, Counsel's opinion was sought in order to clarify the legal position regarding the exclusion of investments on ethical grounds.

Advice received stipulated that it was not legal to exclude investments on ethical grounds and a decision to do so would be susceptible to judicial review.

Copies of the relevant March and May 2009 Highland Council reports were appended to the report.

**RECOMMENDED**

**That the report be noted.**

**8. ISSUES FACING THE LOCAL GOVERNMENT PENSION SCHEME**

The Director of Pensions gave a presentation and sought the input of Members on issues facing the Local Government Pension Scheme (LGPS).

He began by stating that these were exceptional times which highlighted many issues facing the Greater Manchester Pension Fund (GMPF) and the LGPS. There were now over 3 million people linked to the LGPS, 1.6 million of which were employees.

The Director of Pensions then sought the views of Members with regard to issues faced by specific groups, including employers, employees, taxpayers and administering authorities. Issues raised included:

- Employers – Affordability and understanding of the options available and their implications.
- Employees – It was felt that most would be keen to keep a good scheme, however there were concerns regarding ill health retirement arrangements.

Tax Payer – Again, affordability.

- Administering Authority – The case for a stabilisation mechanism and managing across the employer base and the conflicts that could arise from such policies.

Members also highlighted issues facing society as a whole, in particular that pension savings reduced the call on means tested benefits.

The effect and influence of the media and the importance of effective communication with employers and employees was also discussed.

#### **RECOMMENDED**

**That a special meeting of the Information Services Working Group be arranged to understand, comment and respond on the new Local Government Pension Scheme consultation to be issued by the Department of Communities and Local Government.**

### **9. INSTITUTIONAL SHAREHOLDERS' COMMITTEE PAPER – IMPROVING INSTITUTIONAL INVESTORS' ROLE IN GOVERNANCE**

A report of the Director of Pensions was submitted which gave details of a series of proposals published by the ISC, designed to make engagement by investors more effective in the wake of the banking crisis.

It was reported that the proposals were designed to feed into the current Walker Review of corporate governance in banks and into the Financial Reporting Council's review of the Combined Code. The proposals set out ways in which the ISC believed that the role of shareholders and their agents could be enhanced and how communications with companies could be improved.

It was reported that PIRC had expressed the view that the corporate governance recommendations proposed by the ISC could have gone further.

#### **RECOMMENDED**

**That the report be noted.**

### **10. PIRC UPDATE**

Alan MacDougall and Janice Hayward of PIRC Ltd attended the meeting and circulated the following documents for discussion:

- Engagement on Executive Remuneration: Update; and
- Financial Reporting: After the crisis.

Alan MacDougall briefed the Working Group on the Local Authority Pension Fund Forum shareholder resolution that was tabled at the recent Marks & Spencer AGM. An extensive discussion on the issue ensued.

**CHAIR**