

ITEM NO: 5(b)

GREATER MANCHESTER PENSION FUND

ETHICS AND AUDIT WORKING GROUP

25 January 2013

Commenced: 10.30am

Terminated: 12.15pm

Present: Councillor Middleton (Chair)

Councillor Francis

Councillor Grimshaw

Councillor Mitchell

Councillor Pantall

Councillor Lone

Mr Llewellyn UNITE

Mr Mulryan UNITE

Peter Morris Executive Director of Pensions

Steven Taylor Head of Pension Fund Investments

Tracey Boyle Head of Pension Fund Accountancy

Michael Ashworth Pension Fund Accountancy

Tom Harrington Pension Fund Investments Team

Raymond Holdsworth Pension Fund Investments Team

Christine Weston Internal Audit

Linda Kettles Grant Thornton LLP

John Harrison Grant Thornton LLP

25. DECLARATIONS OF INTEREST

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

26. MINUTES

The Minutes of the proceedings of the meeting of the Ethics and Audit Working Group held on 19 October 2012 were approved as a correct record.

27. INTRODUCTION OF GRANT THORNTON LLP

The Chair welcomed to the meeting Linda Kettles and John Harrison, formerly of the Audit Commission, now representing Grant Thornton LLP. It was explained that Grant Thornton LLP had taken over as the Fund's external auditor.

They briefly outlined their role and explained that there would be little difference, from the Fund's perspective, in reporting procedures and the way in which they carried out their duties.

28. RISK MANAGEMENT AND INTERNAL AUDIT SERVICES – UPDATE REPORT FOR THE PERIOD ENDING 31 DECEMBER 2012

Consideration was given to a report of the Executive Director of Finance which summarised risk management and internal audit work carried out in the period ending 31 December 2012.

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

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

- Legal and General Investment;
- Debtors;
- Visit to Tameside Sports Trust;
- Managed Audit – Treasury Management;
- Property Insurance;
- Managed Audit – General Ledger
- Managed Audit – Contribution Income; and
- Advice re: Auto enrolment.

With regard to other work carried out in the period, it was reported that a visit had been carried out to the third party suppliers used by the Fund for data services/secure destruction services, following a fine of £250,000 imposed by the Information Commissioner upon a Scottish Local Government Pension Scheme who had failed to monitor and have an adequate contract in place with a supplier who they had procured to digitise member records. Personal records had been found in an overflowing recycling bin, by a member of the public.

It was further reported that the systems and controls in place for the receipt of confidential waste and its destruction appeared to be very good.

Further visits were being planned to two other suppliers.

RECOMMENDED

That the report be noted.

29. GMPF ADMINISTRATION EXPENDITURE MONITORING STATEMENT FOR THE 8 MONTHS TO NOVEMBER 2012

The Executive Director of Pensions submitted a report, which detailed the administration expenses incurred by the Fund for the 8 months to 30 November 2012. The actual outturn for the 8 months to 30 November 2012 showed an underspend of £246,000 against the budget of £9,840,000 for that period.

The major variation between the projected and actual outturn was primarily due to a delay in the appointment of staff, in particular regarding local investments, which had contributed to staff costs being under budget. The Executive Director of Pensions explained that the Fund was incurring external fees against the local investments budget, relating to, for example, the Manchester City Council pilot housing development scheme. Similarly, fees would be incurred regarding the on-line funding level reporter.

The Executive Director of Pensions further explained that the Fund was currently undertaking a number of major investment reviews. The Head of Pensions Investments was leading the Global Equity Manager review and Hymans Robertson had been commissioned to assist with the process. Hymans Robertson would also be commissioned to assist the Fund regarding its review of wider debt related investment. Costs associated with these investment reviews would be met from the revised budget for 2012/13 or the 2013/14 budget.

RECOMMENDED

That the report be noted.

30. GMPF AGED DEBT AS AT 21 DECEMBER 2012

A report was submitted by the Executive Director of Pensions, which showed that the value of aged debt for the fund as at 21 December 2012 was £2.72 million. This showed a decrease in the overall debt from 23 September 2012 quarter of £1.27million. The main reason for the decrease in debt was:

- debts on payment plans (particularly in the property and administration employer's categories) continued to be paid off in accordance with the plans;
- The Local Authority with a previously outstanding sum had settled this debt; and
- A major proportion of rechargeable pensions and actuarial charges had now been settled.

The report summarised 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 range of debt recovery activity was 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 content of the report be noted.

31. UPDATE ON UNAUTHORISED TRADING WITHIN THE UBS INVESTMENT BANK

The Executive Director of Pensions submitted a report, which explained that the Fund had written to UBS in December 2012, seeking their views on a number of specific issues regarding unauthorised trading within the UBS Investment Bank. A copy of the letter was appended to the report.

It was further reported that in January 2013, very senior representatives of the UBS Investment Bank appeared before the Parliamentary Commission on Banking Standards. As a result of the appearance, UBS requested more time in which to respond, in a full and considered way, to the Fund's letter.

It was proposed, therefore, that a further report on this issue be submitted, and that a senior employee from UBS with responsibilities for risk be invited to the next meeting of the Working Group.

RECOMMENDED

That the report be noted.

32. LEGAL AND GENERAL CORPORATE GOVERNANCE REVIEW

James Sparshott, Client Relationship Manager and David Patt, Corporate Governance Analyst, Legal and General, attended the meeting and gave an overview of Legal and General's approach to passive investment management focussing in particular on Corporate Governance over the last twelve months.

Legal and General's view on Executive Remuneration in the context of the "Shareholder Spring" of 2012 was detailed.

Mr Patt also discussed specific recent examples of Legal and General's engagement with companies.

A wide ranging discussion took place on the content of Legal and General's report.

RECOMMENDED

That the content of the presentation be noted.

33. CARBON DISCLOSURE PROJECT

Consideration was given to a report of the Executive Director of Pensions which informed Members that the Carbon Disclosure Project (CDP) was an independent not-for-profit organisation which held the largest database in the world for primary information on company policies and practices relating to climate change.

The CDP sent out information requests to organisations on an annual basis. In order to encourage these organisations to voluntarily respond, financial institutions were invited by the CDP to become signatories to the information requests.

It was reported that last year, the Fund accepted an invitation to become a signatory to the CDP information request and the CDP Water Disclosure information request. This year, the Fund had again been invited to become a signatory to the CDP information request and the CDP Water Disclosure information request. In addition, the Fund had also been invited to become a signatory to the CDP Carbon Action information request and the CDP Forest Footprint Disclosure information request.

RECOMMENDED

That the Working Group accept the invitation to become a signatory, at no charge, to the four Carbon Disclosure Project information requests outlined in the report.

34. 2012 LETTER FROM GLOBAL INVESTOR NETWORKS TO THE GOVERNMENTS OF THE WORLD'S LARGEST ECONOMIES

A report was submitted by the Executive Director of Pensions, which explained that a "2012 Letter from Global Investor Networks to the Governments of the World's Largest Economies" had been produced by a collection of bodies representing institutional investors from around the world, setting out seven key elements for a new dialogue between investors and governments on climate policy and listing six examples of where well designed policies had been successful in attracting low carbon investment. The letter (and its predecessor documents) were produced and submitted prior to the annual UN Climate Conference. A copy of the letter was attached to the report.

RECOMMENDED

- (i) That the report be noted;**
- (ii) That a copy of the letter be published on the GMPF website; and**
- (iii) That the Working Group continues to support expenditure on the IIGCC annual membership fee at the applicable rate.**

35. REVISIONS TO THE UK STEWARDSHIP CODE

Consideration was given to a report of the Executive Director of Pensions, which informed Members that on 28 September 2012, the Financial Reporting Council published a revised version of the UK Stewardship Code, which became effective on 1 October 2012.

It was reported that GMPF would review and update as necessary, its Statement of Compliance with the Code in light of the revisions and updated guidance. Any necessary updates to the Fund's Statement of Compliance with the Code would be brought to a future meeting of the Working Group.

RECOMMENDED

That the report be noted.