

# ITEM NO: 14

**Report To:** Pension Fund Management Panel

**Date:** 18 September 2009

**Reporting Officer:** Peter Morris, Director of Pensions

**Subject:** **EMPLOYERS JOINING GREATER MANCHESTER PENSION FUND**

**Report Summary:** The report describes the types of employer that can become participants in Greater Manchester Pension Fund and the arrangements in place to minimise risks for existing employers.

**Recommendations:** The Panel is recommended to note the report.

**Financial Implications:  
(Authorised by the Borough  
Treasurer)** The current strict controls on admission of new employers and the effective management of their participation in the Greater Manchester Pension Fund minimise the risk of adverse impact on existing employers.

**Legal Implications:  
(Authorised by the Solicitor to  
the Fund)** Employers participate in Greater Manchester Pension Fund in accordance with the provisions of The Local Government Pension Scheme (Administration) Regulations 2008 and within the policy framework set from time to time by this Panel.

**Risk Management:** In managing the participation of employers in Greater Manchester Pension Fund, Tameside MBC as administering authority needs to minimise financial risks for other unrelated employers.

**ACCESS TO INFORMATION:** **NON-CONFIDENTIAL**

**This report does not contain information which warrants its consideration in the absence of the Press or members of the public.**

**Background Papers:** A copy of The Local Government Pension Scheme (Administration) Regulations 2008 can be found at:  
<http://timeline.lge.gov.uk/LGPS2008Regs/BATidx.htm>  
or may be obtained from David Phillips at the Pensions Office, Concord Suite, Droylsden who can be contacted by phone: 0161-301-7249 or e-mail: [david.phillips@gmpf.org.uk](mailto:david.phillips@gmpf.org.uk)

## **1. INTRODUCTION**

- 1.1 Employers participating in Greater Manchester Pension Fund fall into two main categories, scheme employers and admitted bodies. Scheme employers can be sub-divided into two further categories. Most scheme employers (such as district councils, joint authorities, higher education corporations, further education corporations, ALMOs and academies) participate automatically. In other words, they have no choice but to participate. Some scheme employers, such as town councils or companies controlled by local authorities, can choose to participate. In neither case can Tameside MBC as the administering authority prevent participation.
- 1.2 Admitted bodies can participate in Greater Manchester Pension Fund if they have made an admission agreement with Tameside MBC as administering authority. Admitted bodies fall into two groups, community admission bodies and transferee admission bodies. In practice, the former are most likely to be not-for-profit organisations providing public services similar to those provided by local authorities, whilst the latter are normally commercial organisations acting as contractors to local authorities. Whilst an administering authority can choose not to admit a community admission body, it is obliged to admit a transferee admission body if it and the client local authority so wish.

## **2. CONTROLLING RISKS - GENERAL**

- 2.1 Although Tameside MBC as administering authority has ultimate responsibility for ensuring the payment of pensions and other benefits to which scheme members and dependants have a statutory entitlement under the scheme rules, in practice the part of the cost not met from member contributions is recovered from employers through contributions determined as part of the actuarial process. The principle adopted is that employers should as far as possible bear liabilities in respect of scheme members who have been in their employ. However, circumstances can arise where an employer leaves the Fund. If this happens at a time when accrued benefits are under-funded, then unless any deficit can be recovered or otherwise managed at the time of departure, a burden is likely to fall on other employers participating in the Fund.
- 2.2 For scheme employers, the expectation is that they will remain in existence indefinitely or that, if reorganisations occur, proper arrangements will be put in place to ensure liabilities are passed to successors.
- 2.3 For admitted bodies, experience shows that participation can be short-lived and the scheme rules explicitly provide for a variety of mechanisms to limit risks to unconnected employers arising from a body's leaving the Fund. These differ between community admission bodies and transferee admission bodies. More importantly, the Panel's policies on making admission agreements include further powerful risk controls.

## **3. RISK CONTROLS – COMMUNITY ADMISSION BODIES**

- 3.1 The scheme rules provide for a termination actuarial valuation to be carried out when an admission agreement ceases to have effect and for a revision to be made to employer contributions due from the departing employer to recover any identified deficit, or if the deficit cannot be recovered from the departing employer, for a revision to be made to the contribution rates payable by all participating employers. In practice, this approach is rarely adopted as in most cases a guarantor local authority is agreeable to absorbing any net position for a departing employer, with any emerging deficit (or indeed, surplus) being reflected over time in the local authority's own employer contribution rate. A recent example is Rochdale Centre of Diversity which ceased activities in August 2009. Rochdale

MBC as guarantor has agreed to accept responsibility for any pension costs arising from the decision to wind up this company. By doing so, the cost and administrative effort involved in conducting a termination valuation has been avoided and unrelated employers have been protected from any adverse effects.

- 3.2 The Panel last considered its policy on the admission of community admission bodies at its meeting on 8 June 2007. It then endorsed the policy it had approved at its 7 March 2003 meeting, namely:

“That employers are required to have a local authority acting as guarantor, an agreement to be pooled with a local authority, or provide a bond in suitable form at a value to be determined by the Actuary to satisfy the financial criteria required to become an admitted body.”

- 3.3 All agreements with community admission bodies made since June 2007 have involved either a local authority type guarantor or provision of a bond. One agreement currently being progressed which has neither is for the Care Quality Commission. This is a statutory body which has taken over the functions of the Commission for Social Care Inspection. Admission was approved by the Panel at its 6 March 2009 meeting.

#### **4. RISK CONTROLS – TRANSFeree ADMISSION BODIES**

- 4.1 Admission agreements with transferee admission bodies can only be made with the agreement of the scheme employer (usually a local authority) which is the client for the service being provided by the new employer. As is the case with community admission bodies, if an admission agreement with a transferee admission body ceases to have effect, it is possible to have a termination actuarial valuation and for extra employer contributions to be required from the departing employer. However, if it proves impossible to recover sums in this way, or by calling on any bond that the scheme employer has required the transferee admission body to put in place, the scheme employer is ultimately responsible for any deficiency.
- 4.2 In practice, it is rare for scheme employers to require bonds to be provided or for termination valuations to be carried out. Instead, scheme employers are normally willing to accept the risk of deficits arising on the admission agreement ceasing to have effect. A simple way to achieve this is for the parties to an admission agreement to agree that the transferee admission body should be pooled with the scheme employer for actuarial valuation purposes. Any net position left once the agreement ceases to have effect is simply absorbed into the scheme employer's sub-fund. This approach avoids the need to assess suitable bond levels and conduct termination valuations, both of which can be expensive and time-consuming. It also provides much greater certainty of costs for the transferee admission body which may lead to better value for money being obtained in the bidding process. Also, it has the effect of protecting unrelated employers from risk.
- 4.3 An exception to this approach has been the admission agreement made in April 2009 with Greater Manchester Waste Limited (now called Viridor Waste (Greater Manchester) Limited). The scheme employer (Greater Manchester Waste Disposal Authority) has required the new employer to put in place a bond for £3m and the company will have its own separately assessed employer contribution rate.

#### **5. ADMITTED BODIES WITHOUT SECURITY**

- 5.1 A number of admission agreements with community admission bodies exist where there is neither a local authority guarantor nor some other form of security such as a bond or an

agreement to pool with a local authority. The 10 most significant (based on the numbers of active members involved) are as follows:

<u>Name of Employer</u>	<u>Number of Active Members @ 31.03.09</u>
Salford University	919
New Charter Housing Trust Group	661
First Manchester Limited	502
The University of Manchester	354
Liverpool Hope University	268
Stagecoach Manchester Limited	262
Connexions Cumbria Limited	152
Positive Steps Oldham	151
Tameside Sports Trust	140
Oldham Community Leisure Limited	121

5.2 The three universities have been participating in Greater Manchester Pension Fund since its creation in 1974. Salford and Liverpool Hope are expected to continue participating indefinitely, but the admission agreement for The University of Manchester is closed to new entrants so their participation will inevitably come to an end once all current active members have left. The other employers, apart from the two bus companies, have clear local authority links.

5.3 A number of approaches can be used to minimise the risks that could arise for unrelated employers were any of the employers listed in paragraph 5.1 above to leave the Fund at a time when accrued pension benefits are underfunded. These include continuously engaging with them to monitor their financial status and intentions in relation to the pension scheme and adopting suitably cautious assumptions in setting employer contribution rates – whilst recognising the affordability issue. In some cases, bespoke investment arrangements may be necessary to limit risks as employers reach maturity. Finally, for employers with clear local authority links, it may be appropriate to explore the possibility of revisiting guarantee and/or pooling arrangements.

## **6. RECOMMENDATION**

6.1 The Panel is recommended to note the report.