



London Borough of Hammersmith & Fulham

AUDIT, PENSIONS AND STANDARDS COMMITTEE

16th September 2014

PENSION FUND EMPLOYERS

Report of the Executive Director of Finance and Corporate Governance

Open Report (Appendices 2-4 are exempt)

Classification: For Information

Key Decision: No

Wards Affected: All

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1. EXECUTIVE SUMMARY

- 1.1. There are a number of different ways organisations can participate in the Local Government Pension Scheme (LGPS) and the length of their participation varies. The risk to the Fund of these employers is that they fail to meet the liabilities built up by their employees whilst they are part of the Fund. 91% of the active members of the Fund are employed by the Council, so in proportion to the overall Fund, the relative potential impact of the risk remains small.
- 1.2. The appendices to this report set out the details of each employer currently participating in the Fund and show a large number of these employers were in surplus at the last triennial valuation in March 2013. They also show that the Fund has protection in place in respect of most of these organisations in the form of guarantees or bonds.

2. RECOMMENDATIONS

- 2.1. To note the report.

3. REASONS FOR DECISION

- 3.1. Not applicable.

4. INTRODUCTION AND BACKGROUND

- 4.1. In addition to the Council, there are a number of other organisations participating in the Hammersmith and Fulham Pension Fund. There are several different ways an organisation can be part of the Fund and this determines how they are treated. These different ways are described below. Appendix 1 gives a more detailed summary.

Administering Authority – this is the Council responsible for running the Pension Fund.

Scheduled Bodies – these are organisations listed in the schedule to the LGPS regulations as being required to participate in the scheme for all their staff who are not eligible for another public sector pension scheme. In the main these are academies with non-teaching support staff.

Community Admission Bodies – these are not for profit organisations who do work in the local community. They are admitted to the Fund via an admission agreement, which is a legal document setting out the terms of their participation.

Transferee Admission Bodies - these are organisations undertaking the duties of an administering authority or scheduled body through a contract. They are also admitted to the Fund via an admission agreement to ensure the transferring staff members' pension rights are maintained.

- 4.2. Although the Fund's investments are managed at a whole fund level, each employer's liabilities are measured separately and the assets are split notionally to enable each employer's funding level to be separately measured and monitored.
- 4.3. Risk to the Fund arises from the possibility of an employer ceasing participation in the Fund without paying a sufficient amount in to meet the relevant liabilities. There are a number of ways in which the Fund can seek to protect itself from this risk. This report has been prepared at the request of the Committee to set out who the employers are, what the risk level is and how the risks are being managed.
- 4.4. When considering the employers in the Pension Fund, it is important to put their relative size in context with the Council. The pie chart overleaf shows the membership of the Fund split between the different types of employer. The table beneath shows a split of the deficit when it was last measured at the triennial valuation at 31st March 2013.

Chart 1: Split of membership

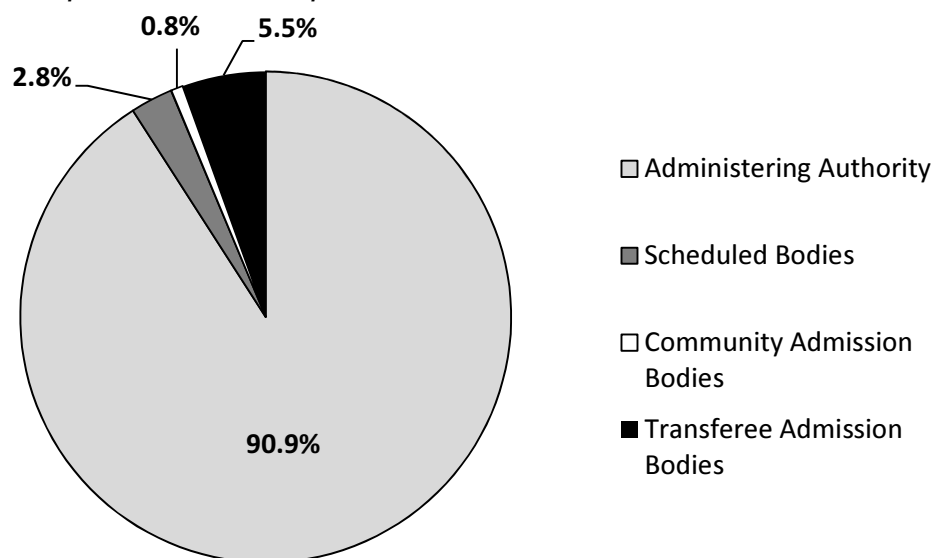


Table 1: Split of deficit

Type of employer	Deficit/Surplus at 31 st March 2013
Administering Authority	£157.1m deficit
Scheduled Bodies	£2.1m deficit
Community Admission Bodies	£0.03m surplus
Transferee Admission Bodies	£9.5m surplus
Closed employers	£2.2m surplus
Whole Fund position	£147.5m deficit

- 4.5. The chart and table show that the Council is by far the most significant employer in the Pension Fund on either measure.

5. PROPOSAL AND ISSUES

- 5.1. The risk posed to the Fund by the employers participating in it varies according to the type of employer and so this section deals with each type in turn highlighting the key issues.

Administering Authority

- 5.2. Although the Council has the largest deficit in the Fund, there is a funding plan in place to recover the deficit over 22 years. Given that the Council is expected to continue to exist for the long term, then this period is considered to be appropriate.

Scheduled Bodies

- 5.3. Prior to the Academies Act 2010, scheduled bodies were generally statutory bodies not expected to fail and to have a successor body if they were to close. There are three organisations in the Hammersmith and Fulham Fund which date from that time and they are Mortlake Crematorium Board, London Oratory School and Burlington Danes Academy.

- 5.4. Since the introduction of the Academies Act 2010, ten new academies have become employers in the Fund. The Department for Education issued a guarantee to local authority pension funds in July 2013 that any pension deficits will be met by the department in the event of an academy failure; however the guarantee does state it can be withdrawn at any time.
- 5.5. The three original scheduled bodies are treated as separate employers and all have their own contribution rates - see Exempt Appendix 2. The ten newer academies, in line with central government guidance, all pay the same contribution rate as the Council. Although their liabilities and funding levels are measured individually, they are treated as a pool in order to protect the Fund from the failure of any one of them. The pool is in deficit and when applying the Council's contribution rate to each of them means they all have deficit recovery periods of less than the Council's varying between 2 and 15 years.

Community Admission Bodies

- 5.6. There are four community admission bodies with active members in the Fund. Details of these are provided in Exempt Appendix 3. These organisations will remain in the Fund until the last active scheme member they employ leaves. At that point, a cessation valuation will be carried out by the actuary to calculate whether there is a deficit. They are required to pay the deficit to the Fund, but if the Fund is unable to secure payment, then the default position in the LGPS regulations is that the deficit is spread across the remaining employers in the Fund.
- 5.7. The nature of these organisations is that the only protection option available to the Pension Fund is to seek a guarantor. All of them work closely with the Council and indeed two of them have councillors on their Boards. However it would be for the executive to determine if the Council were to consider guaranteeing them.
- 5.9. The admission of any new community bodies would be in exceptional circumstances only and any decision to admit such a body would have to be made by the Committee.

Transferee Admission Bodies

- 5.10. Providing transferee admission bodies meet the requirements of the LGPS regulations, the Pension Fund is required to admit them to the Fund. The body is an employer in the Fund until the end of their contract with the Council (or scheduled body), or until the last active member leaves, whichever is sooner. Like the community admission bodies, at exit, a cessation valuation is carried out to determine if a deficit remains in the Fund. This is payable by the employer, but in the event it is not possible to secure payment, the LGPS regulations state that the deficit falls back on to the organisation who let the contract.
- 5.11. The LGPS regulations require the risk of the failure of a transferee admission body to be assessed at the point of joining the scheme. The risk is quantified by the Fund Actuary and the organisation can be asked to put up a bond or to have in place a guarantor.

5.12. Exempt Appendix 4 sets out in detail all of the current active transferee bodies, their funding levels at the last valuation and what protection has been put in place. All of the current transferee admission bodies are in the Fund have a contract with the Council.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. Not applicable.

7. CONSULTATION

7.1 Not applicable.

8. EQUALITY IMPLICATIONS

8.1. Not applicable.

9. LEGAL IMPLICATIONS

9.1. Not applicable.

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1 Not applicable.

11. RISK MANAGEMENT

11.1. Not applicable.

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. Not applicable.

LOCAL GOVERNMENT ACT 2000 **LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
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LIST OF APPENDICES:

Appendix 1: Summary of types of LGPS employer

EXEMPT APPENDICES:

Appendix 2: Scheduled Bodies

Appendix 3: Community Admission Bodies

Appendix 4: Transferee Admission Bodies

Appendix 1: Summary of types of employer

	Nature of organisation	Entry	Exit	Comments
Administering Authority	Council responsible for running of the Pension Fund	Automatic entry for all employees	Not applicable	
Scheduled Bodies	Statutory in nature and are listed in a schedule to the LGPS regulations.	Entry to the Fund is a legislative requirement and all employees are automatically entered into the Fund, in the same way as the Council employees are.	Due their nature the regulations do not envisage these organisations ceasing except following a restructuring when the liabilities pass to the successor body.	These are academies plus the Mortlake Crematorium Board
Community Admission Bodies	Not for profit organisations or charities who work in the local community	The Fund has a choice about whether to admit these organisations. The organisation chooses which employees can join.	When the last active member leaves or the organisation ceases to exist any unrecovered liabilities are spread across all remaining employers in the Fund.	Generally these organisations joined the Fund many years ago. Unlikely any new ones will apply for admitted.
Transferee Admission Bodies	Contractors who have taken on work on behalf of the Council (or a scheduled body) following outsourcing of staff under TUPE arrangements	The Fund is required to admit transferee admission bodies where a TUPE transfer has taken place but only staff who have transferred are entitled to be members of the pension fund.	When the contract ends or the when the last active member leaves, any unrecovered liabilities are passed back to the body who let the contract	Generally it is the Council who let contracts, but it could also be an academy.