

## ITEM NO: 13

<b>Report To:</b>	<b>Pension Fund Management Panel</b>
<b>Date:</b>	2 March 2012
<b>Reporting Officer:</b>	Peter Morris, Executive Director of Pensions
<b>Subject :</b>	<b>ROCHDALE BOROUGHWISE HOUSING LIMITED – ADMISSION TO GMPF FOR NEW EMPLOYEES</b>
<b>Report Summary:</b>	The report explains that an application for admission without a local authority guarantor or pooling arrangement has been made on behalf of Rochdale Boroughwide Housing Limited to cover new employees. The Panel is asked to indicate if it would support making an admission agreement subject to the conditions described in the report.
<b>Recommendation:</b>	The Panel is asked to indicate if it would support making an admission agreement subject to the conditions described in the report.
<b>Financial Implications: (Authorised by the Borough Treasurer)</b>	The Fund's policy on admission is intended to minimise the possibility of financial risks to other unrelated employers should an admitted body fail to meet its obligations.
<b>Legal Implications (Authorised by the Solicitor to the Fund)</b>	Under the scheme rules, administering authorities are empowered to make admission agreements to allow specified types of body to participate in the pension scheme.
<b>Risk Management</b>	Admission of an employer without suitable security may place a burden on other Fund employers if the admitted body fails.
<b>ACCESS TO INFORMATION:</b>	<b>NON-CONFIDENTIAL</b> <b>The report does not contain information which warrants its consideration in the absence of the Press or members of the public.</b>
<b>Background Papers:</b>	The Local Government Pension Scheme (Administration) Regulations 2008  For further information please contact David Phillips, Pensions Office, Concord Suite, Droylsden Tel 0161 301 7249, email <a href="mailto:david.phillips@gmpf.org.uk">david.phillips@gmpf.org.uk</a>

## **1. INTRODUCTION**

1.1 Under regulation 5 of the Local Government Pension Scheme (Administration) Regulations 2008, administering authorities may make admission agreements with community admission bodies. These are generally not-for profit organisations providing public services in the UK which have some operational or financial links with local authorities.

1.2 The Fund's policy on admission of community admission bodies was last formalised at the Panel's meeting of 7 March 2003. A report by the Director of Pensions stated:

"Thus it is proposed that in the current environment, the Fund tightens its entry criteria for new employers to require a local authority guarantor, pooling with a local authority or that the employer provides a bond at a level determined by the Actuary and is prepared to meet the costs of such an assessment. In practice the required size of the bond would make such an arrangement an exception.

Any exceptions to this policy should be approved by the Pension Fund Management Panel."

## **2. ROCHDALE BOROUGHWIDE HOUSING LIMITED**

2.1 Enquiries about admission has been received on behalf of Rochdale Boroughwide Housing Limited. Rochdale Boroughwide Housing Limited is currently an arm's length housing management organisation (ALMO) responsible for the management of Rochdale MBC's council housing stock. It is a company limited by guarantee, with Rochdale MBC being the sole member. As an ALMO, it is one of the types of employer designated as scheme employers in the pension scheme rules and therefore participates automatically in the scheme. However, Rochdale MBC has decided to transfer its housing stock to Rochdale Boroughwide Housing in its new guise as a registered social landlord with the legal status of an industrial and provident society. The transfer is currently planned for 19 March 2012. In its new form, Rochdale Boroughwide Housing will not be an ALMO. If it is to continue to participate in the Fund, it would have to do so by way of one or more admission agreements. This is possible as a registered social landlord would meet the definition of a community admission body.

2.2 We are advised that Rochdale MBC is willing to act as guarantor to an admission agreement which would allow the employees who are transferred to the new entity to remain as members of the scheme, but is not willing to act as guarantor in respect of new employees. Making an agreement to cover the transferred staff with such a local authority guarantor would be fully in line with the Panel's policy and the Executive Director of Pensions intends to progress such an agreement using his delegated powers. However, making an agreement to cover new staff, where Rochdale MBC would not be willing to bear risk, is more problematical. Although initial discussions have covered the need – in the light of the policy agreed in 2003 and bearing in mind the absence of a local authority guarantee or pooling arrangement - to provide a bond, it is felt appropriate, given the current ever more challenging public spending environment, to seek the Panel's guidance before making any firm commitment. A pre-requisite to an agreement in respect of new employees would be to have in place appropriate security in the event of default and the opportunity to review the level of security over time as the scale of liabilities and funding position changes.

## **3. FINANCIAL RISKS**

3.1 Making an admission agreement allows employees to build up statutory rights to pension benefits that Tameside MBC, as administering authority for the Fund, will be obliged to pay from the Fund. In the normal course of events, the cost of such benefits is met by way of fixed contributions from employees and variable contributions from the employer

concerned, together with the associated investment returns. However, were an admitted body to fail for any reason, there could be unmet liabilities which in the absence of some form of guarantor would fall to be met by other employers in the Fund. This is why we strongly prefer an admission agreement to have a local authority as party acting as guarantor, or to involve an actuarial pooling arrangement with a local authority. An alternative is for the admitted body to put in place a bond at a level determined by the Fund actuary. The purpose of the bond is to ensure that any residual liability that cannot be recovered from a departing employer can be recovered instead from an insurance company. Such bonds are not trouble-free however. Significant costs can be incurred in assessing the required level and in obtaining the cover and it is administratively burdensome for the Fund to monitor bonds to ensure that the employer always has cover of adequate duration and level. There can also be difficult practical issues associated with calling in the security.

- 3.2 In other cases where no local authority guarantor has been provided, then as well as requiring a bond, agreements have been made for a limited initial period only and also require the employer to pay up-front for the net cost to the Fund arising from inward transfers of membership from other employments within the LGPS or from other schemes.
- 3.3 We are awaiting confirmation from Rochdale Boroughwide Housing Limited on the likely number of new employees per year that may wish to have access to membership of the Fund. If the intention is to only offer the Scheme to a small number of employees, the administrative burden would not justify admitting new employees. The value of security required would be agreed with the Actuary.

#### **4. PROS AND CONS OF ADMISSION FOR NEW EMPLOYEES**

- 4.1. Rochdale Boroughwide Housing Limited wish to be able to offer the LGPS to new staff who join post transfer. This would avoid the need to make separate pension arrangements for new staff, with the possible perception of a two-tier workforce. It may also help the employer to attract staff who have a background in local authority housing management.
- 4.2. From the Fund's perspective, although admission would allow us to enable more employees to have access to relatively generous and secure pension provision, it would also bring with it additional administrative burdens and potential financial risks for other employers.

#### **5. RECOMMENDATION**

- 5.1. The Panel is asked to indicate if it would support making an admission agreement subject to the conditions described in the report.