Greater Manchester Pension Fund

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Date 02 June 2011

Public Service Pensions Fair Deal Consultation
Workforce, Pay and Pensions Team
Public Services and Growth Directorate
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Dear Sir/Madam,

Consultation on the Fair Deal Policy

Please find a response submitted on behalf of Greater Manchester Pension Fund.

If you require any further information or clarification, please contact me.

Yours faithfully,

P. Morris

Peter Morris
Executive Director of Pensions

Encl.

HM Treasury: Consultation on the Fair Deal Policy
Response of Greater Manchester Pension Fund

1. GREATER MANCHESTER PENSION FUND (GMPF)

1.1 Tameside is the administering authority of Greater Manchester Pension Fund. The Fund has over 265,000 members and over 250 employers contributing to the Fund, of which over 150 are admitted bodies. It has assets of £11,000 million and it is the largest Local Government Pension Scheme fund in England and Wales and equates to about 8% of the LGPS by value of assets.

1.2 GMPF has an excellent long term investment track record that is a major factor in its funding level being amongst the best of local authority funds and leads to average employer contribution rates being at the lower end of the range. The Fund's latest valuation as at 31st March 2010 reports a funding level of 96.4% and a common contribution rate of 15.3%.

1.3 This response is submitted from an administering authority perspective with the aim of helping to inform the debate. The focus of the response is primarily LGPS related, because this reflects both our experience and that the LGPS is funded.

1.4 Some questions raised in the consultations are more relevant for Government, employers, employees and their representatives and as such we have chosen not to comment on such matters. **We are of course very interested in the impact such changes may have on pension savings and the management of LGPS funds.**

1.5 The GMPF Management Panel's objectives have remained consistent over the last two decades, they are:

- To provide an effective and efficient administration service to Scheme members in co-operation with Fund employers.
- To deliver a low, stable employer contribution rate whilst maintaining the solvency of the Fund (but these joint aims are difficult to deliver in a low investment return environment that was experienced over the last decade).
- To encourage good, secure pension provision for eligible employees.
- To maintain/develop a philosophy of innovation, continual improvement and best value in service delivery.

2. GREATER MANCHESTER PENSION FUND – BACKGROUND STATISTICS

2.1 An analysis illustrating the increasing number of employers (whose employees contribute to the Fund) by type of employer and employee members is summarised in Tables 1 and 2 below:

Table 1 – Analysis of Changes in Employers participation in GMPF

Date	Number of Employers	Number of Admitted Body Employers	% of Admitted Bodies
31/3/11	263	154	59
31/3/10	236	140	59
31/3/09	226	135	60
31/3/05	203	111	55
31/3/00	166	84	51

Table 2 – GMPF Analysis of changes in employee membership 2000-2011

Employee Members					
Year as at 31/03	**Whole Fund**	**Local Authority**	**Admitted Bodies**	**% at Admitted Bodies**	**% at Local Authorities**
2011	97,218	68,081	11,743	12.0	70.0
2010	101,851	71,553	10,989	10.8	70.3
2009	102,016	72,322	11,060	10.8	70.9
2005	102,241	74,796	9,678	9.5	73.2
2000	93,661	79,861	7,849	8.4	85.3

CLG collect membership statistics annually at the national level including the number employed by admitted bodies.

2.2 As expected the Fund has seen a substantial increase in the number of employers reflecting changes in Government policies and decisions taken by local authorities on alternatives to in-house service delivery. This trend is expected to continue as a direct result of changes in Government policy e.g. the growth in the number of academies and local authorities working with a wide variety of organisations to deliver services to their residents. The Government's decisions following the Fair Deal consultation process will of course materially influence the number of transferee admission bodies. An important requirement of GMPF is the credit worthiness of admitted bodies and their ability to fulfil their obligations as an employer in the LGPS. Thus for many employers the local authority acts as guarantor and where the employer is a transferee admission body, it is a requirement of the regulations that the local authority is ultimately responsible for the liabilities if the employer fails.

2.3 In 2010/11, there were 14 new admission agreements at GMPF, analysed as follows:

4 Community Admission Bodies (of which 3 were major scheme employers changing their status from a scheme employer).

10 Transferee Admission Bodies (these transfers related to care, IT/FM, cleaning and catering).

For transferee admission bodies, the norm would be for a closed agreement (i.e. no new members) or few new members joining the scheme at transferee admission body employers. So far, we have not had many material issues with the Fund's admitted body employers.

2.4 The number of employees that are scheme members peaked in 2007 at 104,000 members and the gradual decline through to 2010 has accelerated significantly in 2010/11 with a further period of very significant falls in membership expected because of:

(i) public sector employers reducing their staffing levels;
(ii) employers stopping admitting new members;
(iii) employers ceasing to be financially viable;
(iv) employees opting out of the scheme.

A change in the Fair Deal policy would further reduce scheme membership. **The effects of declining membership on local authorities and other employers participating in the scheme is a very material issue.** This will have an impact on deficit recovery and over time on investment strategy and this could lead to higher costs in the medium term if funds try to reduce the volatility of cost.

3. THE CASE FOR RETAINING "FAIR DEAL" (AS IT APPLIES TO LOCAL GOVERNMENT)

3.1 It is recognised that the principle and selection of the preferred option will primarily be an issue for Government, employers, employees and their representatives to agree.

3.2 We believe there is a case to support the retention of the admitted body option for the reasons summarised below and covered in more detail in the response to questions:

(i) the review of public service pension schemes is expected to result in schemes that will "deliver at least adequate levels of income for scheme members who work a full career in public service" (Pension Commission report);

(ii) it can provide value for money in the provision of pensions for outsourced employees, because LGPS funds can take a long term investment approach that is expected to lead to better returns and thus lower cost;

(iii) pooling arrangements with the parent local authority or pass through arrangements (where the new employer agrees a rate for the duration of the contract) can meet the objectives set out in the consultation paper of being fair to taxpayers, contractors and members; and

(iv) maintaining membership in the LGPS will help control the volatility of cost and it could also help in containing costs for existing employers.

4. RESPONSE TO CONSULTATION QUESTIONS

4.1 ***Question 1:*** *The Government welcomes views on whether there are any people or organisations who may be affected by this consultation other than those listed in 1.7.*

Tameside MBC as an administering authority of an LGPS fund and the Pension Fund Management Panel, together with other administering authorities will consider themselves to be organisations that may be affected by this consultation.

4.2 ***Question 2:*** *The Government welcomes views from respondents on how the Fair Deal policy operates in their experience, where this is considered relevant to future policy.*

Our experience is primarily based on where contracting authorities and successful tenderers have decided that the transferee admitted body approach should be adopted.

The approach to funding in the admission agreement has been flexible, but for the transferee admission body our preference has been to favour actuarial pooling with the local authority to determine employer contribution rates. For employers with their own contribution rate, agreement is reached between the local authority employer and administering authority on the arrangements at termination/cessation in dealing with any funding shortfall.

This approach has generally avoided any major pension issues arising when there is a change in the service provider.

We have had a case where scheme members transferred into a broadly comparable scheme and subsequently on a further change of employer rejoined the Fund. The value of transfers received meant that service "bought back" in the LGPS was materially less than the members expected.

4.3 ***Question 3:*** *The Government welcomes views on whether there are any other objectives which should be taken into account when developing future policy.*

The Government is keen to encourage adequate pension provision by employees.

Thus a fifth objective could be "providing value for money in delivering the pension promise."

In paragraph 1.5 of the consultation document, Lord Hutton comments on the barriers to potential new providers of public services, i.e. generally higher costs for private sector organisations delivering a defined benefit pension promise and the volatility of cost. A significant factor is the fear of volatility of cost and in particular investments delivering returns less than expected. The expectation is that a requirement for stability of cost, particularly with assets at current relative valuations, will lead to materially higher costs.

If an administering authority, with the agreement of the local authority (as guarantor) to the admitted body is able to take longer term strategic investment decisions, this should lead to an investment strategy being adopted that delivers the "pension promise" at lower cost than would be the case with a more cautious investment strategy.

4.4 ***Question 4:*** *Is there a case for changing the current Fair Deal Policy and* ***Question 6*** *– setting out a proposal for future policy*

The objectives set out in paragraph 3.2 of the Consultation document are summarised below together with our suggested 5th objective:

(i) delivering value for money for the taxpayer;
(ii) providing an appropriate level of protection to public sector employees' pension provision when services are outsourced;
(iii) removing barriers to plurality of public service provision;
(iv) allocating the costs and risks of pension provision appropriately, and our suggestion;
(v) providing value for money in delivering the pension promise.

I set out below a potential way forward that we believe provides a balanced response to the objectives detailed.

(i) Currently, the employer carries the pension funding risks of its employees that participate in the LGPS.
(ii) To encourage competition on a level playing field, between external service providers and in-house service providers, the local authority continues to be responsible for the investment and longevity risk. This enables all tenderers to be advised at the outset of the employer contribution rate, the assumptions on which this is based and the responsibilities and risks that they as employers carry. Thus for example the tendering authority could require controls by the "new employer" on pay and early retirement and if these constraints were breached, additional sums would become payable by the new employer to the pension fund.

The benefits of such an approach are:

(i) the local authority is not carrying any additional risks and it could pass on some risks to the new employer and thus reducing its overall pension risk;
(ii) it gives more flexibility (time) in recovering deficits. The contribution rates could include an element of deficit recovery payments. This could be particularly important for employers because of the material changes recently experienced and expected in their workforce.
(iii) all tenderers pay the same pension cost facilitating competition and a level playing field.
(iv) it encourages participation in a pension scheme and pension saving by employees enabling their continued participation in the LGPS.
(v) it provides value for money in the cost of delivering the pension promise.

Examples of how such an approach could be delivered include:

(i) pooling of the admission body with the local authority for actuarial valuation purposes; and
(ii) a pre-determined employer contribution rate for the duration of the contract.

We have a number of examples where an admitted body is pooled with a local authority for determining employer contribution rates and historically this arrangement has worked successfully.