Agenda Item 10

Policy and Resources Committee – 17 January 2011

CCP Pension Fund Deficit

Purpose of report

To ask Members to consider the offer of a guarantee to the Northamptonshire Local Government Pension Fund in respect of any outstanding CCP liabilities.

Attachment(s)

None

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1. Background

1.1 In 2003 the Council sponsored the admission of CCP into the Local Government Pension Fund (LGPF) to enable it to offer comparable pension rights to staff who were subject to TUPE and to assist with the recruitment of senior management staff in the new organisation.

1.2 The Council as CCP's sponsor was not asked to provide any guarantee or warranty against any liabilities that CCP may accrue in the Fund and be unable to meet at a future date. If the creation of CCP had taken place today or indeed in the last four or five years the fund would have sought a guarantee as a condition of admission into the fund. It is likely that in any future management arrangement for the leisure centres the Council will need to underwrite or guarantee any other organisation or contractor that might wish to participate in the fund.

1.3 At present CCP has 6 active members, 1 retired pensioner and 4 deferred members (former employees) in the Northamptonshire LGPF.

2. CCP Pension Fund Contributions

2.1 On the admission of CCP into the LGPF the fund's actuary assessed CCP's future pension liabilities and set an appropriate employer's contribution rate. In accordance with the tri-annual revaluation of the fund, CCP's liabilities and employer's contributions have been reviewed from 1 April 2005 and 1 April 2008. CCP has met any increase in its employer's contribution rate through the annual management fee

2.2 The LGPF has been revalued with effect from 31 March 2010 and the results have recently been published. As part of the revaluation process new employers' contribution rates will become payable with effect from 1 April 2011.

2.3 Over the past three years since the last revaluation, all employees in the LGPF have seen a significant increase in their pension deficits due to the poor performance of assets (lower investments returns and low interest rates) and increased liabilities from increases in survival rates and longevity of pensioners. These factors are outside the control of any employer.

2.4 At the 2007 revaluation CCP's share of the fund was well funded at 90% with a deficit of £70k. However, due to the factors refer to above, in the 2010 revaluation the funding level has fallen to 84% and the deficit had increased to £145k. It should be noted that the CCP share of the fund is still well funded compared to most local authorities, including East Northamptonshire Council (ENC), which have funding levels of about 70%.

2.5 In the past the fund's actuary has sought to recover the deficit over a number of years, e.g. for local authorities the proposal is to recover the deficit and return to 100% funding levels over 20 years. But a major change in the 2010 revaluation is that the fund is looking to recover any deficit from non local authority bodies over the remaining life of any contractual arrangements or funding agreements. For CCP the existing management agreement is due to expire in August 2013.

2.6 CCP's employer's contributions in 2010/11 are about £25k. The fund is seeking additional annual contributions of £67k in both 2011/12 and 2012/13. These increases are significant and cannot be met by CCP without a significant increase in the management fee from ENC. Should an increase in the fee not be forthcoming then the trustees would need to consider whether to cut services to fund the increase, or even whether the company should cease trading and terminate the management agreement with the Council.

3. Way Forward

3.1 In discussions with the pension fund and its actuary, two options have been identified that would reduce the additional contributions being sought.

3.2 The first option would be to extend the management agreement to allow the deficit to be collected over a much longer time period. However, in order to reduce the increase in annual contribution to an affordable level it is likely that the management agreement would need to be extended by 15 years or so. Officers are of the view that this option is not worth pursuing, bearing in mind the life and condition of the centres and potential changes in leisure provision in the future.

3.3 The second option would be to offer the pension fund a guarantee to meet any outstanding deficit if or when CCP ceased trading. The benefit of this option is that the pension fund would then be prepared to recover the CCP deficit over 20 years (i.e. to be recovered by 2031) and reduce the additional contributions required from £67k over the next two years to about £7k per annum for the next twenty years. This level of increase would be manageable without any increase in our management fee to CCP. From the Council's perspective, if CCP ceased trading the fund would not "call in" the guarantee immediately to settle the outstanding CCP deficit. It would allow the Council to continue to settle the deficit at about £7k per annum for the remaining years until 2031. If CCP was successful in securing a further management agreement with the Council after the existing agreement ends clearly there would be need for the fund to rely on its guarantee.

3.4 The Council currently has a pension deficit of £11.2m and offering a guarantee to CCP would potentially add an additional liability of about £130k if CCP cease trading on or before August 2013. This is an increase of less than 1.2% and is immaterial compared to the normal fluctuations caused by changes in investment values and life expectancy.

4. Equality and Diversity Implications

4.1 There are no specific implications arising from the consideration of a guarantee.

5. Legal Implications

5.1 The Council has the appropriate legal powers to financially support CCP.

6. Risk Management

6.1 If the Council does not provide financial support or a guarantee in respect of the pension liabilities there is a real possibility that the trustees will wind up the company and terminate the agreement with the Council. The existing management agreement allows CCP to terminate with six months' notice. Should CCP give notice to terminate or decide to wind up the company, the Council would need to procure a new provider or take back the service in-house; both options will have significant resource implications. If the Council doesn't provide a guarantee and CCP winds up, there is a remote possibility that the pension fund would seek to recover any deficit from the Council as the original sponsor. However, the initial view of the Pension Manager and the Department of Communities and Local Government is that the legislation does not provide for the recovery of the deficit from the Council in these circumstances. Offering the guarantee will require the Council at a later date to meet any outstanding pension liabilities, should CCP not continue to trade in the future.

7. Financial Implications

7.1 There will be no immediate financial implications of offering the guarantee but there is a risk that in future the Council may need to meet the cost of any outstanding pension liabilities referred to in the report. However any additional contributions will be collected over a number of years.

8. Corporate Outcomes

8.1 By offering a guarantee there will a direct impact on the following outcomes:-

- Effective Partnership Working
- Effective Management
- Good Reputation
- Good Value for Money

9. Recommendation

9.1 The Committee is recommended to approve the offer of a guarantee to the Northamptonshire Local Government Pension Fund in respect of any outstanding liabilities from CCP. *(Reason – to safeguard the continued operation of CCP s the Council's leisure services provider with the minimal upfront cost.)*

<table>
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<tr><td colspan="6">Person Originating Report: Mark Lovell, Chief Finance Officer</td></tr>
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(Committee Report Normal Rev. 22)