Bath & North East Somerset Council		
MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**22 JUNE 2018**	**AGENDA ITEM NUMBER**
TITLE:	**SCHEME EMPLOYERS & ADMISSION BODIES UPDATE**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Exempt Appendix 1 – Employer Analysis		

1 THE ISSUE

1.1 This report provides information about the changes in scheme employers and admission bodies occurring within the Fund since the 2016 valuation.

1.2 It also provides a summary of the revised Covenant process being implemented as a result of the increased number of employers in the Fund.

1.3 It also considers the impact of the LGPS (Amendment) Regulations 2018 which entitles scheme employers to receive an exit credit payment from the Fund. This became effective for exiting Employers after 18 May 2018.

2 RECOMMENDATIONS

That the Committee:-

2.1 Notes the information in this report

3 FINANCIAL IMPLICATIONS

3.1 There are no direct financial costs to consider. However the payment of exit credits to employers could have a slightly negative impact on cashflow. However, the working cash balance will be sufficient to meet payments in most cases. There may be additional actuarial costs as a result of the extra work.

4 NEW EMPLOYERS AND EMPLOYER EXITS

4.1 The number of scheme employers has increased as follows:

Table 1:

Employer type	31/03/2016	31/03/2017	31/03/2018
Unitary Authorities	5	5	6
Further/Higher Education bodies	8	8	8
Academies	120	150	195
Parish/Town Councils and connected entities	36	36	36
Community Admission Bodies	17	17	16
Transferee Admission bodies	44	82	104
Total	230	298	365
Exits		6	19

4.2 At 31 March 2016 there were 230 scheme employers. There are now in excess of 365 scheme employers with continuing “fragmentation” of the employer base.

4.3 **Academies:** The main increase has been in academies (which are scheduled bodies and therefore have the right to join the scheme). There are currently 212 academies in the Fund. All new Academies are directed by the Regional Schools Commissioner to join a Multi Academy Trust (MAT) and the distribution of Academies in MAT’s in the Fund is shown in Table 2 below.

4.4 There continues to be a large number of academy conversions (there are 73 in the current pipeline). In addition, 1 academy is closing, there have been 5 MAT mergers/disintegrations with another in progress, so the sector is in a state of constant change. Significant resources are dedicated to managing these employers and the Fund’s processes have evolved to efficiently manage the volume of work.

4.5 The LGPS Scheme Advisory Board are reviewing the administration of academies within the LGPS to understand the options to standardise the approach taken by administering authorities.

Table 2:

Number of Academies in the Trust	Number of Multi Academy Trusts of this size	
1	35	stand alone academies
2	4	
3	1	
4	5	
5	3	
6	3	
7	2	
8	2	
9	2	
10	2	2 MAT's each with 10 academies
13	1	1 MAT with 13 academies
16	2	2 MAT's each with 16 academies

4.6 **Transferee Admission Bodies (TAB's):** over the last 2 years more than 140 new admission bodies have joined the Fund. TAB's are usually private sector companies where there is a commercial contract in place between them and the outsourcing employer. For these bodies the Fund's policy is that the pension liabilities are guaranteed by the outsourcing scheme employer. Some outsourcing employers require a TAB to have a bond in place to protect them if the TAB becomes insolvent. TAB's generally have relatively short contract terms resulting in an increase in the number of exits as the commercial contracts expire or the last member leaves in addition to the new admissions. The increase in the number of TAB's is due to the outsourcing of schools catering and cleaning by maintained schools and academies and also outsourcing of care contracts by unitary authorities.

4.7 **Community Admission Bodies (CABs):** These bodies provide a service to the local community but not as a result of an outsourcing; as a result they have historically been funded from public sources. The number of CABs in the scheme is stable. As new CAB's are required to be guaranteed by a scheme employer or a more prudent funding basis is adopted and security sought, few bodies elect to be admitted to the scheme and most are historic admissions before guarantees were permitted. When a CAB leaves the scheme any deficit must be paid in full if there is no guarantee from a scheme employer. If immediate repayment of the deficit is likely to put the financial viability of the organisation at risk, a payment plan is agreed in line with the LGPS Regulations.

4.8 **Parish/Town Councils and connected entities:** There are presently 33 Parish / Town Councils in the Fund plus 3 connected/controlled entities. These bodies can take various forms but one common feature is that their funding generally comes from the public sector (through raising taxes or funding) and they provide services for the public sector. The security of the funding sources varies which means that, in terms of being able to meet their pension liabilities, some bodies pose a greater risk to the Fund than others.

4.9 The LGPS Regulations 2013 require all new admission bodies to be guaranteed or have a bond in place to protect the Fund. However, the Fund has adopted this policy since December 2005.

5 2018 COVENANT PROCESS

5.1 The objective of the Fund's covenant work is to reduce the financial risk to the Fund of an employer defaulting and leaving the Fund with a deficit. It also monitors the financial strength of scheme employers which feeds into the valuation in determining the affordability and level of contributions to be set.

5.2 A risk based process is being adopted to systematically identify higher risk employers according to specific risk triggers. This approach is taken as it is not possible to evaluate in detail all the employers in the Fund. The process generates a "risk score" as shown in the Table 3 below. A higher risk employer includes those who do not have a guarantee or tax raising powers and that either have a low funding level or a large deficit. It does not make an assessment of their financial strength.

Table 3:

Risk Score	Criteria
2	Less than 80% funded (guaranteed employers ongoing basis; non-guaranteed CB basis)
2	Funding deficit £0.5m or more
2	No guarantor or tax/toll raising powers, or concerns about guarantee agreement
2	No security or inadequate security
1	3 or less active members
Use data to calculate risk score and RAG for each employer:	
4+	Red
1-4	Amber
0	Green

5.3 Having scored all the employers, the employers that pose greatest risk to the Fund are identified and are prioritised for further financial assessment which will be used when considering contribution levels and affordability at the 2019 valuation.

5.4 The results indicate that there are 10 “higher risk” employers, which is consistent with our expectations following work done at the 2016 valuation. They are mainly Tier 3 Employers (these are scheduled bodies that do not benefit from local or national tax payer backing and admitted bodies that joined the Fund before guarantees were permitted). There are in total 18 Tier 3 employers in the Fund; 8 of these employers were either in surplus or the funding deficit was under £0.5m or there were other mitigating circumstances. Exempt Appendix 1 summarises the 10 “higher risk” employers identified for review in the next 3 months

5.5 In addition as part of the covenant process the following will be undertaken:

(1) a review of the guarantees and security currently in place to ensure they are enforceable and our reliance on them is valid

(2) a review of major employers where either a default would have a material impact on the Fund or where they face significant funding pressures; this will inform affordability considerations at the next valuation

(3) a review a small selection of employers in each employer category so that we are well informed about funding and restructuring changes in the sector and possible impacts on the Fund

(4) ad hoc reviews in response to known or emerging risks such as exited employers on payment plans

6 EXIT CREDITS - (AMENDMENT) REGULATIONS 2018

6.1 The change in Regulations affecting the arrangements when employing bodies exit the Fund comes at a time when funding levels have improved significantly since the last valuation due to strong asset returns. The current estimate is that there are c. 60 employers with surpluses totalling £3.3m. There are 27 employers that potentially have contract end dates in the next 12 months and these have surpluses totalling c. £394k. As the regulations came into effect on 18 May, there are 4 admissions that ended on 1 June 2018 with surpluses of circa £200k which will be repaid to the contractors under the new Regulations. As a consequence of the new regulations, the repayment of surpluses to employers will effectively mean they receive an unexpected ‘windfall’. In the case of “pass through” contracts there is a potential inequity as the outsourcing employer will have borne the risk of a deficit but will not receive the surplus. It is the responsibility of the outsourcing employer to recover the surplus from the contractor, which will test the efficacy of the commercial agreements which they have in place. This arises because the contracts were not drafted with this regulation change in mind.

6.2 The Fund has taken legal advice to clarify the legal position of making refunds to exiting employers. In addition, the Actuary’s opinion has been sought in respect of potential changes (as a result of the new regulations) to the Fund’s exit and termination policies as currently set out in the Funding Strategy Statement (FSS) including the appropriate valuation basis for when an employer exits.

6.3 Once the exit and termination policies have been revised the FSS will be updated and employers will be informed of the changes and how it will impact the contracts with admission bodies. Changes to the FSS will be considered by Committee.

6.4 As these changes will affect some scheme employers immediately we are already assisting where there are outsourcings or exits in progress.

7 RISK MANAGEMENT

7.1 A key risk to the Fund is the inability of an individual employer to meet its liabilities, especially when it ceases to be an employing body within the Fund. Assessing the strength of an employing body's covenant is a crucial component in managing the potential risk of default to the Fund. Accordingly, a formal covenant assessment process has been prepared. Within the Investments Team there are officers with responsibility for monitoring the employers' financial position and for supporting the Investments Manager in managing the financial and liability risk.

7.2 The overriding concern of the Fund is that these organisations maintain their financial sustainability in order to contribute to their pension obligations over the long term. To support this, the Fund explores a number of options in consultation with the individual bodies to obtain greater security for the liabilities e.g. through a charge on any assets the organisation may have. The aim is to maximise the employer contributions having taken into account the employer's financial situation, which means that the future viability of the employer is an important consideration. In short, each body is treated on a case-by-case basis as their particular circumstances vary significantly, the relationship with their main funder (usually a local authority or academy trust) being a major factor.

8 EQUALITIES

8.1 An equalities impact assessment is not necessary.

9 CONSULTATION

9.1 N/a

10 ISSUES TO CONSIDER IN REACHING THE DECISION

10.1 Are contained in the report.

11 ADVICE SOUGHT

11.1 The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

Contact person	Liz Woodyard, Investments Manager 01225 395306
Background papers	
Please contact the report author if you need to access this report in an alternative format	