Report To:	**GMPF LOCAL PENSIONS BOARD**
Date:	13 October 2016
Reporting Officer:	Sandra Stewart – Executive Director, Governance, Resources and Pensions Euan Miller – Assistant Executive Director, Pensions (Funding and Business Development)
Subject :	**IMPLICATIONS OF CHANGES IN SERVICE DELIVERY**
Report Summary:	The numbers of participating employers in GMPF is continuing to increase rapidly. Further cutbacks in local authority budgets are likely to result in further outsourcing and an increase in applications for admitted body status. This rapid increase in the number of employers presents both administrative and funding challenges. This reports sets out some of these challenges and the mechanisms available to tackle them.
Recommendation:	To note the content of the report.
Financial Implications: **(Authorised by the Section 151 Officer)**	An increase in the number of admission bodies is likely to increase the rate at which the scheme matures and increase the shortfall of contribution income received compared to benefits paid out. This makes it more difficult for the Fund to withstand any sustained period of poor investment returns which could ultimately result in contribution rate increases.
Legal Implications: **(Authorised by the Solicitor to the Fund)**	Under the LPGS Regulations, employers who are contracted to carry out services previously provided by Scheme Employers (such as local authorities) are required to have their liabilities guaranteed by the relevant Scheme Employer. Should the Scheme Employer provide such a guarantee then the Fund are required under the regulations to admit the new employer.
Risk Management:	At the whole fund level an increase in the rate at which the scheme matures makes it more difficult for the Fund to withstand any sustained period of poor investment returns. At the individual employer level, incidences of employer cessation are likely to increase. The Fund has various measures to protect itself against any employer incurring a cessation event whilst its sub-fund is in deficit.
ACCESS TO INFORMATION:	**NON-CONFIDENTIAL** **This report does not contain information which warrants its consideration in the absence of the Press or members of the public.**
Background Papers:	The background papers relating to this report can be inspected by contacting Euan Miller, Assistant Executive Director – Funding and Business Development Telephone: 0161 301 7141 e-mail: euan.miller@tameside.gov.uk

1. INTRODUCTION

1.1 The LGPS has two main types of employer:

- Scheme Employers – required to admit new employees to the Scheme under the LGPS Regulations. Examples include local authorities, academy schools, further education colleges and certain universities.
- Admission Bodies – either “community admission bodies” that provide a public service and have a community of interest with a Scheme Employer or “transferee admission bodies” formed as a result of Scheme Employers outsourcing services. The employer is admitted to the LGPS by the signing of an ‘admission agreement’ setting out the terms and conditions of their participation.

1.2 The numbers of participating employers in GMPF is continuing to increase rapidly. At 31 March 2016 the Fund had around 470 contributing employers, about half of these being Scheme Employers, including around 200 academy schools. The number of admitted bodies includes the 21 Community Rehabilitation Companies (‘CRCs’) that joined GMPF as part of the probation service transfer. At any given time, GMPF can have as many as 70 admission applications in process.

1.3 Further cutbacks in local authority budgets are likely to result in further outsourcing and an increase in applications for admitted body status. We are also increasingly seeing ‘2nd generation outsourcing’, where non-local authority employers themselves outsource and subcontract services. A common example is academy schools outsourcing catering or cleaning services, where often the transfers involve only a couple of staff (often part time workers). The CRCs also subcontract services and this is expected to increase in future.

1.4 is conceivable that the Fund could have in excess of 1,000 employers within 5 years. This rapid increase in the number of employers presents both administrative and funding challenges. It is important to note that these challenges are faced not just within GMPF but across the LGPS as a whole, although these issues are generally more acute in the larger ‘metropolitan’ funds.

2. THE ADMISSION PROCESS

2.1 On transfers of employment, many LGPS employers are currently subject to the Best Value Authorities (Pensions) Direction 2007, in broad terms this requires for existing members of the Scheme to retain their membership or for ‘broadly comparable’ benefits to be provided via another arrangement. Membership can be retained by the employer receiving the transfer of staff applying to the LGPS for admitted body status.

2.2 On receiving an application to join the Fund from a prospective employer, GMPF will check that it meets the admission criteria set out in Schedule 2 to the LGPS Regulations. It is up to the employer to determine which members of their staff are eligible and supply a staff list to the Fund.

2.3 GMPF will then administer the benefits that these members earn in the Scheme, which will involve receiving contributions and membership data from their employer and paying the pensions and other benefits in accordance with the LGPS Regulations.

2.4 GMPF meets with employers when they join the Scheme to ensure the employer understands their duties as an employer.

2.5 If the new employer will be an 'admission body, then an admission agreement is signed by the ceding employer, the new employer and GMPF. The admission agreement sets out the terms and conditions of the new employer's participation in the Fund. This includes:

- Whether or not new employees will be allowed to join the Fund ('open' or 'closed' agreement);
- Policy of recouping costs of early retirement, pay rises, transfer strains etc…
- Events that may cause the agreement to terminate and what happens to the liabilities on termination.

2.6 The majority of admission bodies created via the outsourcing of services are likely to seek 'closed admission agreements', where new employees are not offered membership of the LGPS and over time the membership ages and the number of active members will reduce.

2.7 At the whole fund level this increases the rate at which the scheme matures and we are likely to see an increasing shortfall of contribution income received compared to benefits paid out. This makes it more difficult for the Fund to withstand any sustained period of poor investment returns, where assets may have to be realised at depressed prices.

2.8 At the individual employer level, incidences of employer cessation are likely to increase, both via employers' last active members leaving employment and employers ceasing to exist, for example as a result of an insolvency. The Fund has various measures to protect itself against any employer incurring a cessation event whilst its sub-fund is in deficit. These are covered in section 3 below.

2.9 The maturity and funding level of individual employer sub-funds are also likely to become increasingly diverse.

3. FUNDING GUARANTEES

3.1 Under the LPGS Regulations, employers who are contracted to carry out services previously provided by Scheme Employers (such as local authorities) are required to have their liabilities guaranteed by the relevant Scheme Employer. Should the Scheme Employer provide such a guarantee then the Fund are required under the regulations to admit the new employer.

3.2 This guarantee protects the Fund from loss should an admission body's participation terminate. Often the Scheme Employer requires the admission body to take out a bond to cover the risk it is taking on by providing this guarantee.

3.3 Further comfort is provided to the Fund if admission bodies are 'pooled' with Scheme Employers such as local authorities for the purposes of calculating contribution rates and also, in some instances, the additional costs of early retirements.

3.4 The Best Value Authorities (Pensions) Direction 2007 is due to be superseded in the LGPS by the implementation of the Fair Deal Regulations. Under the current regime GMPF can refuse admission for prospective community admission bodies if it thought that admission would be detrimental to the other employers in the Fund. GMPF therefore requires a Scheme Employer to guarantee the admission bodies liabilities on termination. However, under Fair Deal is it likely that it will be a legal requirement for transferred employees to retain membership of the LGPS and GMPF may need to re-assess its policy on admission in light of this.

3.5 The Fund's Employer Funding and Viability Working Group periodically considers the Fund's approach in this area and the Fund's policies are set out in the Funding Strategy Statement which is updated at each actuarial valuation. The 2016 version of the Funding Strategy Statement is due to be consulted on with employers later this year.

4. NEXT STEPS

4.1 Officers continue to monitor the level of applications for admission and the implications for employers and report periodically to meetings of the Employer Funding and Viability Working Group.

5. RECOMMENDATIONS

5.1 The Board is asked to note the report.