

Hambleton District Council

Report To: Cabinet

Date: 6 July 2021

Subject: **Pension Fund**

Portfolio Holder: Economic Development and Finance
Councillor P R Wilkinson

Wards Affected: All Wards

1.0 Purpose

1.1 For Cabinet to consider the pension fund transfer of Broadacres Housing Association's Local Government Pension Scheme liabilities in the London Pension Fund Authority (currently 7 Actives, - that will become pensioners or deferred - 44 Pensioners and 23 deferred pensioners) to Hambleton District Council, participating in the North Yorkshire Pension Fund.

2.0 Background

2.1 On 29 April 1993, around 80 employees from Hambleton District Council were transferred to the employment of what was then known as Hambleton Housing Association Limited (now Broadacres Housing Association) as a result of the Large Scale Voluntary Transfer (transfer of council houses to a housing association) Stock Transfer Agreement.

2.2 Prior to the transfer, these employees were eligible to be or perhaps were active members of the North Yorkshire Pension Fund in the Local Government Pension Scheme. Given the location of all of the council houses transferred to Broadacres Housing Association it is not entirely clear why the Broadacres Housing Association employees became members of the London Pension Fund Authority Local Government Pension Scheme and didn't remain in the North Yorkshire Pension Fund; this would have been the fund that geographically matched the location of the housing stock and the staff employed to maintain the housing stock and carry out other services ancillary to the provision of the housing stock.

2.3 Broadacres Housing Association's admission agreement with the Local Government Pension Scheme was closed to new entrants in 2005, which means that when all London Pension Fund Authority active members retire or leave the London Pension Fund Authority, no pension contributions will be paid to the London Pension Fund Authority from either Broadacres Housing Association or employees (London Pension Fund Authority active members), but the pensioners and deferred pensioners (the 'liabilities' in the pension fund as an ongoing costs) will still receive payments on an ongoing basis. Ceasing to employ active members in the London Pension Fund Authority will result in all the future costs of the expected benefit payments being crystallised at this specific moment in time and is expected to lead

to a large cost payable by Broadacres Housing Association. This cost is calculated by the actuary to the London Pension Fund Authority, Barnett Waddingham, and is referred to as the cessation debt, or, exit payment. As at 30 September 2020 Barnett Waddingham estimated that the cessation debt was approximately £7.2m. For many employers where continued participation in the Local Government Pension Scheme is statutory, including Hambleton District Council, this cessation debt would not be required as employees are continually joining so new members and ongoing contributions from the employer continually support those retiring.

- 2.4 Broadacres Housing Association has approached Hambleton District Council to consider this pension fund transfer in order to see if the expected costs of £7.2m to Broadacres Housing Association can be reduced. The section below sets out the proposal which is beneficial financially for Hambleton District Council and also Broadacres Housing Association where funding would be available to support house building in the District. Sowerby is the largest scheme at the moment with more than 90 homes planned over the coming years. Plans are in place over the next three years to develop in Hutton Rudby, more proposals for Huby, as well as Northallerton and Stokesley. Hambleton District Council's commitment to the long-term support of Broadacres Housing Association is already borne out from previous investment where £35m has been provided to Broadacres Housing Association to build affordable homes in the area since 2015.

3.0 Proposal

- 3.1 The proposal from Broadacres Housing Association to Hambleton District Council is to exit the current scheme, where pensioners and deferred pensioners would become the responsibility of Hambleton District Council and the assets and liabilities in the London Pension Fund Authority would transfer to Hambleton District Council in the North Yorkshire Pension Fund; Hambleton District Council would be the guarantor. This arrangement would be drawn up in what is known as a subsumption agreement. This has occurred several times previously within local authorities across the UK, including in 2019 between Watford Community Housing Association, Watford Borough Council and Hertfordshire Pension Fund.

- 3.2 The proposal also includes a separate legal agreement as follows:

- **Assets and Liabilities transferred** - the assets and liabilities are added to Hambleton District Council's own assets and liabilities in the North Yorkshire Pension Fund and Hambleton District Council is compensated from Broadacres Housing Association for doing this.
- **Actual transfer date of assets and liabilities** - the London Pension Fund Authority liabilities are transferred to Hambleton District Council in the North Yorkshire Pension Fund at the date of cessation and if there is a deficit position (liabilities are greater than the assets in the receiving scheme, the North Yorkshire Pension Fund, as assessed by the North Yorkshire Pension Fund Actuary) Broadacres Housing Association will cover this shortfall so that on the transfer date there is a 'breakeven' position where assets equal liabilities.

- **Volatility** - the position will be monitored by Hambleton District Council's actuarial advisor with a long term agreement for 7 years between Hambleton District Council and Broadacres Housing Association where funding will be made available from Broadacres Housing Association to Hambleton District Council in the event that potential risks occur that would lead to additional funding strains (deficits emerging in respect of the transferring liabilities) e.g. equity values fall, discount rates fall, Life expectancy increases. Examples of the impact of such risks were provided by Hambleton District Council's actuarial advisers – Aon – in a report providing an understanding of the liabilities and how to mitigate this risk.
- **Volatility detail on monitoring mechanism** - The detail on the mechanism for monitoring the volatility and triggering any additional top up payment will be set out in the legal agreement and will cover, amongst other things, the frequency of valuations (expected to be in line with regular LGPS funding valuations with a final valuation taken at the 7 year point with any emerging deficit at that time being made good by BHA); timing of additional payments (where required subsequent to each valuation) payable directly to Hambleton District Council; confirmation that any emerging surplus remains within the Fund for Hambleton District Council's benefit. Any related advisory costs will be met by Broadacres Housing Association.

3.3 The funding implications of paragraph 3.2 are detailed in financial implications section 5.0 of the report below.

4.0 The Process

- 4.1 The subsumption agreement requires the consent and cooperation of Hambleton District Council, North Yorkshire County Council, as administering authority of the North Yorkshire Pension Fund, and the Secretary of State for Housing, Communities and Local Government. Initial discussions between North Yorkshire Pension Fund and Ministry of Housing, Communities and Local Government (MHCLG) have indicated that this would be looked on favourably.
- 4.2 Approval is therefore sought from Hambleton District Council through this report in July at Cabinet and Council, where subsequent approval will be confirmed at the next meeting of North Yorkshire Pension Fund committee in September 2021 and then the application for consent to the Secretary of State would proceed. Agreement from Broadacres Housing Association's Board has already been agreed.
- 4.3 It should be noted that in September 2020 there was a change to Local Government Pension Scheme legislation which does provide alternative more flexible arrangements which could potentially enable Broadacres Housing Association to exit the LPFA without the payment of an immediate exit debt . However, such flexibilities are at the discretion of the relevant administering authority, and could result in a similar level of cost but spread over an extended period. In any case, it is considered that that the option of Hambleton District Council 'subsuming' Broadacres Housing Association pensioners and deferred pensioners is the better option financially for both organisations. Hambleton District Council benefits as Broadacres Housing Association will be able to build and develop more housing in the area and also Broadacres Housing Association are prepared to remunerate and

support Hambleton District Council in this 'subsumption' agreement where further information is in the Financial Implications section of this report.

5.0 Link to Council Priorities

5.1 Support will be provided to all four of the Council priorities and key corporate projects.

6.0 Risk Assessment

6.1 Risk in approving the recommendations

Risk	Implication	Prob	Imp.	Total	Preventative Action	Net Prob	Net Impact	Net total
Reputational Risk to the Council	Council may be criticised	3	4	12	Broadacres Housing Association are providing financial support as detailed in section 7.0 Financial Implications	3	4	12
Financial	The market is volatile and leads to increased costs	3	5	15	Broadacres Housing Association are providing financial support as detailed in section 7.0 Financial Implications and which will be included in a legal agreement	3	3	9

7.0 Financial Implications

7.1 The financial information included in this section is provided by the London Pension Fund Authority actuary – Barnett Waddingham - and also the Council appointed actuarial advisers – Aon – to support the understanding of the pension fund transfer. The total costs of £7,000 incurred by the Council, have been paid in full by Broadacres Housing Association. In addition, Broadacres Housing Association have agreed to meet all costs in relation to the pension fund transfer for Hambleton District Council and the North Yorkshire Pension Fund.

7.2 The London Pension Fund Authority has calculated the anticipated cessation debt for Broadacres Housing Association's element of the Local Government Pension Scheme at £7.2m on 30 September 2020. This is the estimated amount that Broadacres Housing Association would need to pay to London Pension Fund Authority, subject to final changes in membership, assumptions, and fund experience (eg investment returns) at the final exit date ,if Hambleton District Council did not subsume the pensioners and deferred pensioners into the North Yorkshire Pension Fund.

7.3 **Assets and Liabilities transferred** - In Hambleton District Council agreeing to subsume the assets and liabilities of Broadacres Housing Association, Hambleton District Council will be taking on the risk associated with these liabilities in the North Yorkshire Pension Fund in future. Broadacres Housing Association proposes to

provide £2m to Hambleton District Council to go some way to support this and mitigate the adverse risk.

7.4 **Actual transfer date of assets and liabilities** - Based on financial information we have previously been provided, at 30 September 2020, Broadacres Housing Association had a surplus of £1.0m on the London Pension Fund Authority's ongoing funding basis. Following the subsumption of Broadacres Housing Association's assets and liabilities by the Hambleton District Council and a transfer of these assets and liabilities from the London Pension Fund Authority to the North Yorkshire Pension Fund utilising the different actuarial assumptions fund by fund, the updated calculation at the time of transfer would expect Hambleton District Council to be break-even in the North Yorkshire Pension Fund in relation to the former Broadacres Housing Association liabilities. The former Broadacres Housing Association liabilities would represent around 15% of the Hambleton District Council's liabilities in the North Yorkshire Pension Fund post transfer and would therefore have a relatively small impact on its overall long-term risk profile. Broadacres Housing Association have further agreed that on the day of any transfer, should there be a deficit position in respect of the transferring element of the Local Government Pension Scheme liabilities measured on the basis applicable to the North Yorkshire Pension Fund, then this will be addressed so there is a 'breakeven' position from the very start – i.e. there will be no funding deficit inherited by Hambleton District Council at the point of transfer.

7.5 **Volatility** - The volatile nature of pension liabilities means there is always the possibility that there could be an increase in the size of the former Broadacres Housing Association liabilities in the future, which Hambleton District Council will be required to fund. If there is an increase in the size of the former Broadacres Housing Association liabilities due to changes in North Yorkshire Pension Fund's actuarial assumptions, it is likely that Hambleton District Council would witness an increase in the size of its own liabilities in the North Yorkshire Pension Fund too, of course. This is proposed to be mitigated by Broadacres Housing Association somewhat where Broadacres Housing Association will provide a long term agreement for seven years, from the transfer date being just over two triennial valuation cycles, where a maximum of £3m will be made available in the event that potential risks occur that lead to a detrimental impact on the funding position related to the transferred assets and liabilities e.g. equity values fall, discount rates fall, Life expectancy increases. Specific adverse risk scenarios have previously been detailed by AON, Hambleton District Council's actuarial advisers which have been used to inform this proposed course of mitigation. In those seven years two triennial actuarial valuations will have occurred and the position of North Yorkshire Pension Fund will have changed due to changes in assumptions; membership experience and value of the assets.

8.0 Legal Implications

8.1 The transfer of the pensioners and deferred pensions from Broadacres Housing Association in the London Pension Fund Authority to the North Yorkshire Pension Fund with regards to Hambleton District Council being the guarantor will be subject to a 'subsumption' agreement.

8.2 The transfer will also be subject to a legal agreement between Broadacres Housing Association and Hambleton District Council, where more detailed information is available in the Financial Implications section of the report under paragraph 7.0 and will include:

- £2m from Broadacres Housing Association to partially mitigate the risks of the transfer;
- If there is a deficit position on Broadacres Housing Association element of their Local Government Pension Scheme fund, then this will be addressed so there is a 'breakeven' position from the very start, this is in addition to the £2m provided by Broadacres Housing Association as described above
- Up to £3m being made available from Broadacres Housing Association in the event that potential risks occur that lead to a detrimental impact on the funding position related to the transferred assets and liabilities for seven years from the date of transfer; this is in addition to the two points described above for the £2m and any payment required to ensure the 'breakeven' position. Where experience is favourable, any surplus in the Fund will be retained in the North Yorkshire Pension Fund and will not be returned to Broadacres Housing Association.

9.0 Equality/Diversity Issues

9.1 Equality and diversity issues have been considered however there are no issues associated with this report.

10.0 Recommendation

10.1 That Cabinet approves and recommends to Council:

- (1) the transfer of Broadacres Housing Association pensioners and deferred pensioners to Hambleton District Council from the London Pension Fund Authority to North Yorkshire Pension Fund subject to a subsumption agreement as described in paragraph 3.1;
- (2) the transfer of Broadacres Housing Association pensioners and deferred pensioners to Hambleton District Council from the London Pension Fund Authority to North Yorkshire Pension Fund subject to a legal agreement as described in paragraph 8.2.

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Background papers: None
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