

**PENSIONS COMMITTEE**  
**13 MARCH 2017****MALVERN HILLS CONSERVATORS**

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**Recommendation**

**1. The Chief Financial Officer recommends that the proposal from Malvern Hills Conservators to move from an open to a closed admission basis, on an 18 year deficit recovery plan, is approved by the Committee, subject to Malvern Hills Conservators gaining a surety bond with value of £1,178,000, the value of which is reviewed at least on a triennial basis.**

**Background**

2. Malvern Hills Conservators is a resolution body within the Worcestershire County Council Pension Fund.

3. Malvern Hills Conservators established a working party to review its future participation in the Fund following receipt of the 2013 Actuarial Valuation results, which set out an increase in pension contributions required by the Actuary. Malvern Hills Conservators has been advised since 2015 by an independent Actuary, Gerry Walsh of Mitchell Consulting.

**Proposal**

4. Malvern Hills Conservators proposed route forward is as follows:

- a) That Malvern Hills Conservators (MHC) close LGPS to new joiners.
- b) That existing members continue as LGPS members until they either leave MHC or retire.
- c) That a nominal post be identified which will continue as a member of LGPS.
- d) Those deficit contributions following the 2016 actuarial valuation exercise be spread over a period over 18 years.

**Termination**

5. When the last LGPS active member retires or leaves Malvern Hills Conservators a termination event is triggered that requires the outstanding deficit, calculated on a 'least risk basis', to be paid to the Fund immediately or in line with a payment plan agreed with the Administering Authority.

6. The average Malvern Hills Conservators active members' years to retirement is currently twelve years, however the youngest active member may remain in the scheme longer than the average years.

## **Financial Position**

7. Malvern Hills Conservators have detailed their financial position in Appendix 1 to this report and state that 'prior to the escalating pension costs, the general fund ran at a small surplus each year, allowing sufficient reserves to purchase the capital equipment needed to maintain the Hills and Commons'. Malvern Hills Conservators general budget summary for the period 2017/18 to 2019/20 shows that once deficit contribution payments are included an annual deficit results in the region of £15,000 to £25,000 per annum. Their general fund has reserves of around £250,000. Malvern Hills Conservators has two major sources of general fund income, an annual precept charged to Council Tax payers, £482,000 in 2017/18, and car park takings, typically around £200,000 per annum.

8. Malvern Hills Conservators have deficit within the Fund on a closed basis that has been valued at £1.092 million. There is therefore significant risk to the fund that if Malvern Hills Conservators financial position does not improve the general reserve will not be able to meet the deficit contribution payments for the full 18 years deficit recovery period.

9. A deficit recovery period of less than 18 years would potentially reduce the risk to the fund over the longer term but would place significant pressure in the short to medium term on Malvern Hills Conservators financial position and could lead to an earlier termination event.

## **Collateral/Surety Bond**

9. Malvern Hills Conservators governing documents (the Malvern Hills Acts) allow assets to be used as security for borrowings, but under the Malvern Hills Acts, any assets so charged cannot be sold by the lender. Therefore the option of Malvern Hills Conservators providing a form of collateral to the Fund, to help mitigate some for the deficit repayment risk, is limited.

10. The Fund's Actuary has advised that as a minimum they would recommend that a surety bond is gained by Malvern Hills Conservators with value sufficient to cover the funding deficit on the ongoing assumptions plus any early retirement strains that would be incurred for eligible members (age 55 and over) on redundancy.

11. At the valuation date (31 March 2016), this would amount to c. £1,178,000. This value has been based on:

- Ongoing funding deficit: £1,092,000; plus
- Early retirement strains: £85,822

12. A number of small to medium sized employers who were admitted to the Fund in 2015 and 2016 were able to gain surety bonds from independent banks, although there is a cost associated with obtaining and maintaining the bond based on the covenant strength of the organisation. Initial enquiries by Malvern Hills Conservators into the cost of a surety bond have revealed that a minimum cost of around £25,000 is payable but it is not confirmed if this cost relates to the bond value now advised by the Fund's Actuary.

13. After taking into account the precepting powers of Malvern Hills Conservators and the fact that the organisation has existed since 1884 and although the cost of obtaining and maintaining the surety bond may impact negatively on Malvern Hills Conservators financial position, due to the value of the outstanding deficit and the current financial position of Malvern Hills Conservators, it is recommended that a surety bond is required to reduce the risk to the other employers in the Fund bearing the cost of the deficit in the event that Malvern Hills Conservators are unable to pay the deficit over the 18 years recover period or in the event of early termination.

## **Supporting Information**

Appendix 1 - Malvern Hills Conservators Pensions Working Group - Report to meeting of WCC Pensions Committee, 13th March 2017

## **Contact Point for the Report**

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## **Background Papers**

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report: