

Malvern Hills Conservators Pensions Working Group

Report to meeting of WCC Pensions Committee, 13th March 2017

1. Introduction

Malvern Hills Conservators (MHC) is a resolution body within the Worcestershire County Council Pension Fund (WCCPF).

Following receipt of the 2013 Actuarial Valuation of WCCPF, on seeing the rate at which employer's contributions to the scheme were set to increase MHC established a working party to review its future participation in WCCPF. Work commenced in 2014 and has now reached a conclusion. Throughout the review, MHC has been in close contact with Mark Forrester and Ian Kirk of Mercers. MHC would like to thank Mark, Ian and their teams for their constructive help and advice.

MHC has been advised since 2015 by an independent Actuary, Gerry Walsh of Mitchell Consulting.

The MHC Pensions Working Group now seeks confirmation from WCC Pensions Committee of its proposal for MHC's future participation on WCCPF. If confirmation is received, the Board of MHC will be asked to approve the proposals in April 2017.

2. Summary of MHC's proposal

MHC needs to find a way to reduce its future exposure to the potential liabilities arising from having staff enrolled in LGPS. In July 2016, MHC's Board voted to temporarily close the LGPS to new joiners whilst working with WCC to confirm the detail of a possible permanent closure.

By moving to a closed scheme basis, MHC's deficit within WCCPF will initially be the same as under an open scheme approach. Over time, this basis would lead to a reduction in business risk for MHC as compared to an open scheme basis, as there is less accrual of expensive and volatile defined benefit pensions because new recruits to MHC will be offered defined contribution benefits only. The risk to WCCPF would therefore also reduce.

Under an open scheme basis, WCCPF allows an 18-year write-off period for deficits. MHC understands this is the maximum permitted write-off period, so despite the lower risk to WCCPF under a closed basis MHC proposes the same write off period under a closed basis.

One area to be addressed would be the issue of a potential 'termination deficit' arising once the final active member of WCCPF leaves or retires from MHC. WCCPF has previously indicated that this could be avoided by MHC retaining one nominal post which continues as a member of LGPS and we assume this view has not changed.

The proposed route forward is as follows:

1. That MHC close LGPS to new joiners,
2. That existing members continue as LGPS members until they either leave MHC or retire,
3. That a nominal post be identified which will continue as a member of LGPS,
4. That deficit contributions following the 2016 actuarial valuation exercise be spread over a period over 18 years.

3. Contributions under the closed basis

MHC has been advised that under a 'closed basis', the employer's future service contribution rate for the next 3 years would be 18.2% of pensionable earnings (measured using the projected unit method with a 3 year control period). This rate will be reassessed every 3 years following the triennial actuarial valuation.

In addition, deficit contributions would be payable. The period over which these can be paid is to be agreed by the WCC Pensions Committee, but MHC proposes an 18-year period.

MHC's deficit within WCCPF has been valued at £1.092 million. MHC's consultant Actuary, Gerry Walsh, has provided the following estimates of the lump sum deficit repayments for the next 3 years, allowing repayment periods of 5 – 18 years.

Deficit recovery period (years)	Amount payable 2017/18 £	Amount payable 2018/19 £	Amount payable 2019/20 £
5	231,500	240,100	249,000
6	193,500	200,700	208,100
7	166,400	172,600	179,000
8	146,000	151,400	157,000
9	130,200	135,000	140,000
10	117,500	121,800	126,300
11	107,200	111,200	115,300
12	98,600	102,200	106,000
13	91,300	94,700	98,200
14	85,000	88,100	91,400
15	79,600	82,500	85,600
16	74,800	77,600	80,500
17	70,700	73,300	76,000
18	66,900	69,400	72,000

4. MHC's financial position

MHC was established by Act of Parliament in 1884. It is a registered charity. It owns 3,000 acres of land of the Malvern Hills and Commons. It has a strong balance sheet, but the majority of its assets are inalienable and the use of most of its reserves is restricted to the purchase of land or buildings. The employer's pension costs must be met from the charity's general fund.

The general fund has reserves of around £250,000. MHC 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).

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.

A summary of the projected general fund financial position for the next three years is given in the following table. These figures are based on closure of the WCCPF to new members.

Malvern Hills Conservators					
General fund budget summary 2017/18 - 2019/20					
	2017/18	2018/19	2019/20		
	£	£	£		
Budgeted deficit assuming on-going membership of WCCPF	(21,751)	(27,819)	(17,023)		
Add back pension contributions inc above	136,657	133,254	136,259		
Deficit before pension contributions	114,906	105,435	119,236		
LGPS future service contributions @ 18.2%	(52,567)	(53,092)	(53,623)		
DC scheme costs	(8,222)	(8,304)	(8,387)		
Life assurance	(1,200)	(1,500)	(1,500)		
Surplus before deficit contributions	52,917	42,539	55,726		
Deficit contributions 18 years	(66,900)	(69,400)	(72,000)		
Deficit for the year	(13,983)	(26,861)	(16,274)		
Reserves brought forward	251,781	237,798	210,937		
Reserves carried forward	237,798	210,937	194,663		

An 18-year write off period will still require MHC to address a small deficit, but this is at a manageable level albeit it will lead to a gradual erosion of the general fund reserves unless additional savings or revenue can be found. A shorter write off period, leading to higher deficit payments would make this more difficult, posing a greater risk to both MHC and WCC.

5. Collateral

The issue of collateral has been raised by Mark Forrester. MHC's 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. Legal advice would need to be sought as to whether securing a pension debt would be legal, but given the inability to realise any assets this has not been investigated further.

Initial enquiries into the cost of a surety bond have revealed that these are mainly available to large, blue chip companies and carry a minimum cost of around £25,000.

However, the Pensions Working Group believe that MHC's precepting powers and the fact that the organisation has existed since 1884 provide a sufficient covenant.

We would be grateful to receive your response to our proposals set out in this note and we hope that you will be able to agree to them so that they can be put to the Board of MHC for approval in April 2017.

Cheryl Gentry
Finance & Administration Manager
2nd February 2017

On behalf of MHC's Pensions Working Group