

Guarantees relating to Pension Fund Admitted Bodies

Purpose of Report

1. To request approval for the Council to amend the guarantor arrangements in relation to the following organisations;
 - Yorkshire Museums Trust
 - Veritau
 - Make It York
 - Be Independent
 - Explore

Analysis

2. The Local Government Pension Scheme is subject to a triennial valuation. The 2017 valuation, which takes effect from 1st April 2017, has resulted in a significant increase for a number of admitted bodies. The above admitted bodies have advised that the proposed increases are unaffordable. The North Yorkshire Pension Fund actuary has suggested that the Council could look to provide a “subsumption” guarantee. In doing so, the actuary would consider this poses a reduced risk to the Pension Fund and would therefore recalculate the revaluation accordingly with the result being reduced contribution rates for these organisations.
3. Under current arrangements, these bodies have a guarantee of last resort, which was agreed when they were set up. This means that, in the unlikely event they ceased trading and were unable to cover the required exit payment, the Council would be required to cover any unfunded liabilities. Under a “subsumption” guarantee, the assets and liabilities of the organisation would be “subsumed” into the Council’s overall assets and liabilities. The financial effect is likely to be the same, but spread over a number of years rather than being in one single year.
4. The principle of when the Council would be asked to make good any shortfall remains the same under both types of guarantee - ie only if the body which is being wound up can’t provide the full exit payment (which would be calculated on a cautious basis using appropriate assumptions at the time of exit). If

agreement can't be reached with the exiting body about a means to make the appropriate payment due, then the Council would have to step in and fund the payment.

5. The impact on the Council would depend on the position at exit and the actuarial assumptions used going forward but if the overall assets and liabilities of the exiting admission body are relatively small in relation to City of York's total assets and liabilities it is unlikely that there would be a material impact on the Council's own contribution rate. However, if the Council needed to step in for a number of organisations then the cumulative effect may become material at a certain point. This risk exists now and is unchanged by the proposals in the report.

Options

Option 1 (recommended option)

6. Change the current guarantee arrangements in place to offer a subsumption guarantee. As outlined in the analysis section earlier in the report, this would offer greater security for the Pension Fund and the admitted bodies without creating any additional financial burden for the Council.
7. Veritau is jointly owned with North Yorkshire County Council and they have already indicated that they will be proceeding with the subsumption guarantee.

Option 2

8. Continue with the current guarantee of last resort. This is not recommended, as it would leave the admitted bodies with unaffordable pension contribution rates. All the organisations concerned are undertaking important services on behalf of the Council. If they were to cease trading this would have a greater financial impact on the Council and would result in the loss of services to residents.

Council Plan

9. This proposal supports the council plan by providing financial stability to these local organisations that deliver services to residents.

Implications

10. The proposed change in definition of the guarantee has no direct financial implications on the Council. The risks to the Council if any of the bodies were to fold are set out in the report, and have been set out in previous reports relating to the establishment of these organisations.

11. There are no equalities, human resources, crime and disorder, information technology, property or other implications to this report.

Risk Management

12. There is a risk that, if all 5 bodies ceased trading in same year and were unable to meet the exit payments due to the pension fund, the Council would be liable for substantial exit payments. This risk exists under the current guarantees. If the recommended option is agreed, this risk will be spread over a number of years, as the assets and liabilities will be subsumed within the Council valuation.

Recommendation

13. The Executive Member is asked to agree to change the current arrangements for these admitted bodies from guarantee of last resort to a subsumption guarantee.

Reason: To enable the admitted bodies a greater level of security and reduce risk to the pension fund.

Author:	Chief Officer responsible for the report:		
Debbie Mitchell Corporate Finance & Commercial Procurement Manager Ext 4161	Ian Floyd Deputy Chief Executive and Director of Customer & Corporate Services		
Emma Audrain Technical Accountant Ext 1170	Report Approved	√	Date 8 March 2017
Wards Affected: All			
<i>For further information please contact the authors of the report</i>			