



CABINET

13th June 2017

Subject Heading:

Pension Fund Deficit from the Former Greater London Council

Cabinet Member:

Councillor Barrett, Cabinet Member for Financial Management

SLT Lead:

Debbie Middleton, Chief Financial Officer

Report Author and contact details:

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Policy context:

The Council has a legal responsibility to meet it's liabilities

Financial summary:

The Councils has an outstanding contribution to the former Greater London Council pension fund liability estimated at £2.132m

Is this a Key Decision?

Yes, expenditure exceeds £500,000

When should this matter be reviewed?

The Councils contribution will be reviewed periodically as part of the actuarial review of the pension funds assets and liabilities by the London Pension Fund Authority

Reviewing OSC:

Overview and Scrutiny Board

The subject matter of this report deals with the following Council Objectives

Communities making Havering
Places making Havering
Opportunities making Havering
Connections making Havering

SUMMARY

1. Following the abolition of the Greater London Council in 1986, the London Pension Fund Authority (LPFA) was established to take over specific functions of the London Residuary Body (the successor organisation), in particular the former pension fund and associated liabilities.
- 1.2 The former pension fund liability is the responsibility of all London Borough Councils to meet. The total liability at the last actuarial review conducted in 2016 was assessed at £177.209m and 90% of this liability (£159.488m) needs to be met by London Borough Councils. The liability includes the former Greater London Council and the Inner London Education Authority; however Havering is not responsible for contributing to the latter. The contribution and associated liabilities will be reviewed every three years when actuarial reviews of the fund are undertaken.
- 1.3 There is no direct link between the former employees of the London Residuary Body and individual boroughs, but collectively London Borough Councils are being held liable for the historical pension deficit that exists. The costs are to be apportioned on the most appropriate basis available. The Society of London Treasurers has agreed that the liability should be split on the current levy allocation. The Havering contribution to the liability is assessed as £2.132m or 1.34% of the total liability.
- 1.4 The terms of repayment of the liability to the LPFA are yet to be finalised, although the LPFA has indicated that it will be willing to negotiate repayment terms over a period up to 30 years.
- 1.5 The Council has not previously made budgetary provision for payment of this liability. Therefore the opportunity to pay over the long term of 30 years would be advantageous to the Councils financial planning. Assuming a 30 year term can be agreed annual payments would be in the region of £0.071m per year. If agreed for payments to commence in 2017/18 then this will be funded from the corporate risk budget and will be incorporated into the base budget from 2018/19 onwards as part of the 2018/19 budget setting process.

RECOMMENDATIONS

Cabinet are asked to:

2. Note the liability that is payable to the London Pension Fund Authority towards the pension fund deficit of the Greater London Council which is currently assessed at £2.132m.
- 2.1 Recommend to Council the approval of a payment of £2.132m towards the pension fund deficit of the Greater London Council over a period of up to 30 years.
- 2.2 To give delegated authority to the Chief Financial Officer to finalise the repayment terms of the liability with the London Pension Fund Authority.

REPORT DETAIL

3 Background

- 3.1 Following the abolition of the Greater London Council in 1986, and subsequently the Inner London Education Authority in 1990, the London Pension Fund Authority was established to take over specific functions of the London Residuary Body (the successor to the Greater London Council and Inner London Education Authority), in particular the former pension fund and associated liabilities.
- 3.2 In 1986 significant numbers of existing employees were transferred to new employers, principally the London Borough Councils although other employers were also involved with regard to specific functions. It was determined at that time that liabilities for those active members who moved to new employers should be transferred across to the new fund and accordingly an appropriate apportionment of the fund was calculated and eventually paid to the successor authority in 1990.
- 3.3 Liabilities for all current deferred and pensioner members of the Greater London Council and Inner London Education Authority remained within the London Pension Fund Authority fund, including the large number of staff who were made redundant on 31st March 1986.
- 3.4 Subsequently in 1990 the Inner London Education Authority was abolished and again a substantial number of existing staff transferred across to, principally, the Inner London Boroughs. The Local Government Pension Scheme regulations were amended at this time to stipulate that any employee of the Inner London Education Authority or London Residuary Body who transferred to a London borough, within a month of leaving, would remain within the London Pension Fund Authority fund and no apportionment would be made. Again large numbers of staff were made

redundant around this time and these liabilities remained with the London Pension Fund Authority fund.

3.5 The London Residuary Body was formally wound up in 1996 although most staff had left by the end of 1992 with liabilities remaining within the London Pension Fund Authority fund.

3.6 The relevant liabilities can be split into two distinct groups as follows:

4. Group 1 Former Greater London Council/London Residuary Body staff:

4.1 When the Greater London Council was abolished in 1986 a number of staff transferred to successor authorities, principally the London Borough Councils and an apportionment of the fund was made at that time based on relevant actuarial assumptions. The transfer was only in respect of active members with deferred, pensioner and dependant liabilities remaining within the former Greater London Council/ Inner London Education Authority fund. As at 31st March 1986 active membership of the Greater London Council fund was approximately 37,500 with 3,652 transferring to successor authorities, over 2,000 entitled to immediate retirement benefits (the majority of which were paid early on redundancy grounds) and 1,650 other leavers. Liability for any deficit on this group largely rests with all the London Borough Councils.

5. Group 2 Former Inner London Education Authority staff:

5.1 The Inner London Education Authority was abolished in March 1990 with the Inner London Boroughs becoming education authorities in their own right and taking on the relevant functions associated with that body. Given the large number of staff involved there was no apportionment of the fund and instead those members transferring to Boroughs remained within the Inner London Education Authority fund. In total 9,000+ members transferred across, principally to the Inner London Boroughs, at that time.

5.2 A number of the members transferred have since moved away from direct Borough control, i.e. to Further Education Colleges and Schools. Again the pensioner and deferred liabilities for former Inner London Education Authority staff remained within the Greater London Council/Inner London Education Authority fund and this included a large numbers of early retirements and other withdrawals which took place in the run up to abolition. Liability for the non further education element rests with the Inner London Boroughs.

6. Since Abolition of the Inner London Education Authority and London Residuary Body

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- 6.1 Following the abolition of the Inner London Education Authority and London Residuary Body, the London Pension Fund Authority divided the fund into two sub funds.
- 6.2 Following the 2007 actuarial review, the London Pension Fund Authority notified the London Borough Councils that they intended to issue a further charge due to the deficit that had arisen on the pensioner sub fund. At the time discussions were held with the Society of London Treasurers and draft regulations were prepared by the Department of Communities and Local Government (or its predecessor) to give effect to the proposed levy. This process was challenged by two London Councils and by 2010 the position was unresolved.
- 6.3 The former Coalition government's preference was for the London Borough Councils and the London Pension Fund Authority to try to resolve the issue and subsequently the London Pension Fund Authority abolished the two sub funds which with the other changes to the investment strategy has led to an improvement to the deficit position.

7. Current Position

- 7.1 Following the 2016 valuation of the fund, the overall total deficit on these liabilities is now £177.209m. Discussions with representatives of the Society of London Treasurers and the London Pension Fund Authority have clarified that a fair proportion of any deficit for the London Borough Councils to be responsible for 90% of the deficit and accordingly the proposals for further discussion would be based on this sum (£159.488m).

8. Proposal

- 8.1 It is proposed that the Greater London Council/Inner London Education Authority deficit is apportioned to each London Borough Council in line with the current Levy allocation (i.e. 2016/17 Council Tax Base with a Greater London spread for group 1 and Inner London spread for group 2). This equates to a share of 1.34%/£2.132m for Havering. This will be reviewed three years when further actuarial reviews will be completed.
- 8.2 As the Council was not a member of the Inner London Education Authority we are only liable to contribute to group one relating to former members of the Greater London Council.
- 8.3 The Council need to finalise negotiations with the London Pension Fund Authority on how the liability will be paid and in line with the report recommendations delegated authority is requested for the Chief Financial Officer to conclude these arrangements.

REASONS AND OPTIONS

- 8.4. The Council has a responsibility to meet its share of the former Greater London Council pension fund deficit. The payment mechanism can be entered into voluntarily as proposed, as the only alternative would be for the London Pension Fund Authority to apply to the Department for Communities and Local Government to issue regulations that would be legally binding on the Council.

9. Reasons for the decision:

- 9.1 For the Council to meet its long term liabilities.

10. Other options considered:

- 10.1 The Society of London Treasurers considered in 2010 with the London Pension Fund Authority the option of issuing regulations through the Department of Communities and Local Government however this was unsuccessful.

IMPLICATIONS AND RISKS

11. Financial implications and risks:

- 11.1 The Council currently incurs an annual levy of £0.235m from the LPFA in respect of expenditure on premature retirement compensation and outstanding personnel matters for which the LPFA is responsible but cannot charge to its pension fund. This levy is included within the Council's approved budget.
- 11.2 The Council has a financial duty to meet its liabilities in the both the short and long term. The Council is required to fund its share of the total assessed liability of £177.209m for all London Boroughs resulting from the 2016 valuation of the pension fund. Havering's share is determined to be £2.132m for the Greater London Council only.
- 11.3 The Council has not previously made any budgetary provision for payment of this additional £2.135m liability. Therefore the opportunity to pay over the long term of 30 years would be advantageous to the Council's financial planning. Assuming a 30 year term can be agreed annual payments would be in the region of £0.071m per year.
- 11.4 If agreed for payments to commence in 2017/18 then this will be funded from the corporate risk budget and will then be built into the base budget from 2018/19 onwards through the 2018/19 budget setting process.

11.5 Alternative options will be explored with the London Pension Fund Authority to fund the deficit, including the possibility of the additional levy being offset against future reductions in the existing levy referred to in 11.1 above. The final decision will be made by the Chief Finance Officer, subject to Cabinet approval of the delegation.

12. Legal implications and risks:

12.1 The London Pensions Fund Authority (LPFA) was established by the London Government Reorganisation (Pensions etc.) Order 1989.

12.2 The property rights and liability of the London Residuary Body (the successor to the GLC etc) in relation to pensions were transferred to it and under the same order the LPFA was given the power to raise levies on inner and outer London Boroughs in accordance with the Order.

12.3 In formulating its budget for each financial year, the LPFA should have regard to the following general principles:

- It must exercise its statutory powers and duties for the purposes they were enacted and must comply with the requirements of all relevant enactments;
- It is under a duty at common law to act reasonably in the Wednesbury sense (i.e. it must take into account relevant factors and no irrelevant ones and must not come to a decision that is irrational);
- It has to comply with its duty properly to administer the Pension Fund in accordance with the applicable legislation and its fiduciary duty to promote the financial interests of the pensioners, members and employers of the Fund;
- It has a general fiduciary duty to the council taxpayers of the authorities upon which any levy is to be raised to strike a fair balance between the financial interests of those taxpayers and those who will benefit from the expenditure or the forgoing of income.

13. Human Resources implications and risks:

13.1 There are no human resources implications associated with this paper.

14. Equalities implications and risks:

14.1 There are no equality implications arising from this report.

BACKGROUND PAPERS

None