

CYNGOR SIR POWYS COUNTY COUNCIL.

Pensions and Investment Committee
7th February 2013

REPORT BY: Strategic Director of Finance & Infrastructure

SUBJECT: Coleg Powys

REPORT FOR: Decision

- 1 As Committee may be aware, Coleg Powys, a participating employer in the Pension Fund, is likely to be merged with Neath Port Talbot College with effect from 1st August 2013.
- 2 Coleg Powys currently has 148 active members, 102 deferred members and 39 pensioner members in the Pension Fund and at the last actuarial valuation (March 2010) had a fund deficit of £1,501,000, for which recovery payments are being made over a period of 25 years..
- 3 It is understood that the merger will result in Coleg Powys becoming part of Neath Port Talbot College's incorporation as a Further Education College, with all assets and liabilities transferring to Neath Port Talbot College. As Neath Port Talbot College is a LGPS scheduled body within the Swansea Pension Fund, it is anticipated that a bulk transfer payment will be required as 10 or more members will be transferring, in accordance with Regulation 86(3) of the Local Government Pension Scheme (Administration) Regulations 2008.
- 4 There are two principal approaches for determining the transfer amount payable that are appropriate to this type of transfer scenario and these are as follows:
 - A. Alternative Share Of Fund With Non-Actives Prioritised** – the transfer amount is set equal to the past service reserve in respect of the transferring (active) members, adjusted by the funding ratio for the active liabilities, after allocating the assets to first meet the non-active (deferred and pensioner) liabilities, which are retained in the Powys Fund.
 - B. Application to the Secretary of State for a Direction** - request that Coleg Powys/Neath Port Talbot College applies to the Secretary of State for a direction for members (including deferred and pensioner members) to be transferred to the Swansea Pension Fund as being the Fund to be substituted for

the Powys Pension Fund, on amalgamation, as provided in Schedule 4(2A) and (2B) of the Local Government Pension Scheme (Administration) Regulations 2008. Such a direction, should also require that notional assets in respect of Coleg Powys be transferred to the Swansea Pension Fund on a 'standard share of fund' approach.

Note that 'past service reserve' is a method for calculating the value of member's benefits and takes account of reserves within the Fund to cover future salary increases, within a final-salary scheme such as the current LGPS.

5. The differences between these two approaches are that under approach A:
 - Powys retains responsibility for funding orphaned deferred and pensioner members' benefits and therefore would need to retain sufficient assets to fund these benefits in full; and
 - There is also the question of the most appropriate assumptions that should be used to value the deferred and pensioner liabilities relating to Coleg Powys. To protect the other employers in the Powys Fund it would be advisable to value the liabilities using a discount rate that is equal to the long term gilt yield (rather than the ongoing assumptions) so that, if necessary, the liabilities could be matched by gilt edged investments. This will mean any "profit" or "loss" from these orphaned liabilities in the future is likely to be small and will have only a marginal effect on employers' contribution rates. As a consequence of the above, the bulk transfer amount payable under A is likely to place Neath Port Talbot College in a worse funding position in relation to transferred members than Coleg Powys are in at present ie would very likely increase the funding deficit.

In relation to approach B:

- No further responsibility would fall on the Powys Pension Fund and there would be none of the funding risks associated with approach A; and
 - Neath Port Talbot College would be placed in exactly the same funding position, in relation to transferring Coleg Powys members, as Coleg Powys would be if no transfer had taken place, ie the funding deficit would remain unchanged.
- 6 Committee are asked to note the contents of this report and to authorise the use of approach B, ie that Coleg Powys/Neath Port

Talbot College should apply to the Secretary of State for a direction to substitute the Swansea Pension Fund for the Powys Pension Fund in respect of all Coleg Powys members of the Powys Pension Fund, including deferred and pensioner members.

Recommendation:		Reason for Recommendation:	
To authorise the use of approach B, ie that Coleg Powys/Neath Port Talbot College should apply to the Secretary of State for a direction to substitute the Swansea Pension Fund for the Powys Pension Fund in respect of all Coleg Powys members of the Powys Pension Fund including deferred and pensioner members, in accordance with Schedule 4 (2A) and (2B) of the Local Government Pension Scheme (Administration) Regulations 2008.		As per report	
Person(s) To Action Decision:			
Date By When Decision To Be Actioned:			
Relevant Policy (ies):	N/A		
Within Policy:	N/A	Within Budget:	N/A
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Relevant Portfolio Member(s):	Councillor Dai Davies		
Relevant Local Member(s):			