

# PENSIONS ADVISORY

## Local Government Pension Schemes ('LGPS')



We provide a range of advice to LGPSs and to employers participating in LGPSs

### THE TEAM

The BDO Pensions Advisory team consists of 11 people located throughout the UK.

All senior team members have worked exclusively in pensions advisory since the inception of the current pension funding regime in 2005.

BDO as a firm has deep experience in the sector and as well as providing pensions advice we offer a range of Consulting, Tax, Audit and other advisory services to government and public bodies – with market-leading skills particularly in healthcare, local government, social housing and education.

### LGPS OBLIGATIONS

Defined benefit pension schemes create a volatile and often uncertain debt-like obligation for employers. Within LGPSs, care must be taken so as not to inadvertently trigger a cessation event or where such an event is triggered, the employer will want to understand its options and how they can achieve an optimal outcome.

Our pensions advisory team provide event driven advice which aims to be objective and transparent. Our approach is collaborative and we aim to work with all stakeholders in a constructive manner whenever possible.

We provide advice to LGPSs in identifying risks associated with the employer covenant strength of employers and how the fund can improve its security.

We provide advice to employers on how they can achieve optimal outcomes in situations such as corporate transactions and cessation events.

We aim to educate and empower our clients through any process and provide you with whatever support and advice you require.

### SERVICE LINES

#### Employer covenant issues

We advise on employer covenant risks associated with employers and on how the position and security of the fund can be improved.

#### Cessation events

We advise on the reasonableness of deferring the payment of a cessation deficit and how the fund's security can be improved.

We advise employers involved in corporate restructuring, where there may be a risk of inadvertently triggering cessation events.

#### Corporate activity

We have advised shareholders who are looking to sell their companies which have defined benefit obligations, including obligations to LGPSs. We have helped them to understand the key terms and risks of their Admission Agreements and assist them in their negotiations with purchasers. This includes concisely explaining complex pensions obligations to potential purchasers so that they can appropriately price these into the transaction consideration.

We have also advised various entities involved in mergers where both have obligations to different LGPSs. This involves due diligence on the LGPS obligations, a financial comparison of the funding assumptions, future service costs and future cash costs for each LGPS (in order to assess if one of the two funds was demonstrably preferable to the other, from the employers financial perspective), and options for the post-merger pension provision.

“BDO were very quick to adapt to ideas that we suggested and integrate them into their tried and trusted methods. Their personable approach is a breath of fresh air in the pensions industry and their knowledge and contacts are a massive plus”

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# CASE STUDIES INVOLVING LGPS

## PROJECT ROYAL

We were appointed by the Fund Manager of an LGPS to assess the employer covenant from a new admission body, a private sector company which had won a contract to operate leisure management services for the local authority.

We identified that the private sector company would not become the sponsor, but rather it intended to deliver the services via a Subcontract and Professional Services Agreement with the charitable trust.

The charitable trust would be the sponsor and would collect income and incur costs associated with the provision of leisure services. A management fee to the company and a concession to the local authority would be also be payable. Based on forecasts, only c.0.25% of income would be retained in the charitable trust providing very little scope to increase contributions. Coupled with a relatively small balance sheet, we concluded that the employer covenant was weak.

We suggested that the LGPS request a guarantee from the public sector company or that a bond be put in place to cover the pension obligations. The company said that they had not factored the costs of either into their tender and refused the requests. The employer from which the employees transferred agreed to underwrite this, however, this led to a review of tender documents to ensure that risks and costs associated with security for the fund were included.

## PROJECT FIVE

A charity participating in the LGPS had gained consent from its employees who were members to voluntarily leave the LGPS and join a defined contribution scheme. The cessation debt would be triggered as no active members would remain and the charity had requested a deferred schedule of payments over a period of c.20 years. We were engaged by the LGPS to assess whether it is likely that payments under the deferred schedule could be made and to suggest ways that the LGPS security could be improved.

Our assessment involved a review of the recent financial performance and forecasts of the charity and a theoretical insolvency analysis of what the LGPS may recover should the charity become insolvent.

We concluded that the deferred payment proposal seemed affordable and sustainable for the charity, but given the extended period, we recommended that the fund sought a number of protections including negative pledges against taking on new debt or offering unencumbered assets as security, potentially taking a charge on some unencumbered assets, putting in place covenants around maintenance of unrestricted cash reserves, fixed asset values and value of the debtors ledger and regular reporting. We also suggested some mechanisms which may allow the repayment period to be shortened including a cash sweep to the LGPS where net income was higher than forecast in any year and any accelerated repayment of bank debt being re-matched by a similar, accelerated repayment of debt to the LGPS.

## PROJECT BETTS

We were engaged by the Finance Director of a Not-for-Profit education body which had significant LGPS obligations in respect of its non-teaching staff. The FD wanted to understand the obligations to the LGPS and its options in relation to future DB pension provision.

We provided our client with a paper setting out the options, including commentary on the financial implications of each. LGPSs do not all operate in the same way, and there are a variety of different approaches to funding. We liaised with the LGPSs' on a no-names basis to ensure that we fully understood the characteristics of each specific LGPS.

Before proceeding with any of the options set out in our paper, the Company is pursuing two mergers with other entities with obligations to other LGPSs. We are providing due diligence services in respect of both of these mergers, setting out the relevant entity's obligations to their respective LGPS. We have also provided our client with a financial comparison of the various LGPSs, setting out a comparison of the funding assumptions, future service costs and future cash costs. We have also provided a summary of their options for future pension provision following the mergers, and a cost comparison of each option.

## PROJECT HEATHER

The Group's shareholders were selling the Group which operated a number of outsourced contracts from the public sector, resulting in them participating in four LGPSs. It also sponsored a stand-alone DB scheme. The scope of our work included the production of a paper summarising the key financial position of the DB pension plans, which was to be provided to potential buyers to aid their understanding of the Group's DB pension obligations. The key information included the membership, the funding position on various bases, historic and future cash costs, pension accounting figures and the key terms and risks of our clients' admission agreements with the LGPSs.

We assisted the Group in their negotiations with the trustees of the stand-alone pension plan, to ensure they obtained the best possible outcome from the triennial funding valuation. This included preparing an employer covenant assessment and a review of the assumptions adopted for the technical provisions.

We also assisted the Group in their negotiations with the purchaser. The shareholders successfully sold the Group and a complex set of pension obligations, which may have put-off a number of potential purchasers. We were able communicate the Group's DB obligations in a clear and concise manner which bidders could understand and price into the transaction.

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