

Pensions burden sends homeless charity broke

Simon Read | Monday, 19 November 2012

A major British charity that helps the homeless and domestic abuse victims yesterday became the first to go bust because of pension obligations.

The Liverpool-based group People Can went into administration because of pension deficits that climbed to £17m in the latest valuation, from £11m earlier this year. The charity, formerly the Novas Scarman Group, also helps rehabilitate ex-offenders and has more than 250 staff and volunteers working in London, Bristol, Somerset, Liverpool and Brighton.

The administrator, David Hurst of PwC, said the firm was working to safeguard the services the charity provides. "The local authorities that outsource contracts to the charity were informed of the precarious position early last week, and were asked to seek successor providers as a matter of urgency."

Its pension liabilities dated back many years to its previous role as a Registered Social Landlord but the collapse sends out a warning to other charities with defined benefit (DB) pension schemes, particularly those who may have legacy issues from taking on staff from the public sector. Jennie Kreser, a partner at the law firm Silverman Sherliker, warned that any charities that set up mirror-image DB schemes are at risk. "Outsourcing contracts and government requirements at the time led many charities to have to do this if they wanted to win the contract to run services," she said. "There may well be other charity closures if the financial situation remains volatile."

Ian Oakley-Smith, the head of charity advisory at PwC, said: "Other charities are at risk. The pressure's mounting as they are finding it hard to secure funding for their services, let alone finding further funding for defined benefit pension schemes."

Organisations with DB schemes are facing increasing pressure from historically low gilt yields, poor investment returns and increasing mortality assumptions. The problems can become acute where the size of a pension scheme is large relative to the size of a charity, as it is with People Can.

Zoe Lynch, a partner at pensions specialists Sackers, said: "It's a major problem for any organisation that operates a DB scheme, but charities are facing particular difficulty because they have their own issues with cash flow."

Pensioners in the charity's scheme should be unaffected as it was part of a multi-employee scheme.