

Finance and Resources Committee

10.00a.m, Tuesday 12 June 2018

Lothian Buses Pension Fund

Item number	7.7
Report number	
Executive/routine	Executive
Wards	All
Council Commitments	

Executive Summary

The purpose of this report is to advise the Committee of the proposal by the Lothian Pension Fund to assimilate the Lothian Buses Fund and its request that the Council act as a guarantor for contributions to the Pension Fund, based on its shareholding in the company.

Lothian Buses Pension Fund

1. Recommendations

- 1.1 It is recommended that members of the Finance and Resources Committee:
 - 1.1.1 Note the proposal by the Lothian Pension Fund to merge the Lothian Buses Fund into Lothian Pension Fund; and
 - 1.1.2 Refer the report to Council for approval for the Council to act as a guarantor for contributions to the Pension Fund, in relation to the proportion of its shareholding.

2. Background

- 2.1 The Council has a 91% shareholding in Lothian Buses Limited as one of the successor authorities to Lothian Regional Council. The other shareholders are East, Mid- and West Lothian Councils with 3.1%, 5.5% and 0.4% respectively.
- 2.2 In 1986 Lothian Regional Council and Lothian Regional Transport established the Lothian Buses Pension Fund (LBPF) as a sub-fund of Lothian Pension Fund (LPF). This Fund has been managed by LPF as a “stand alone” fund and as such has its own investments, actuarial valuation and accounts. LBPF and LPF are administered by the City of Edinburgh Council on behalf of all the members.

3. Main report

- 3.1 The Pensions Committee, at its meeting on 26 March 2018 approved the merger of LBPF into LPF, with all assets and liabilities of LBPF transferring to LPF. The report set out the benefits of the merger, which include:
 - increased investment diversification;
 - consistency of investment approach;
 - reduced number of investment portfolios;
 - greater efficiency in cash management; and
 - efficiencies in investment administration and accounting.

- 3.2 At present, the Funding Strategy Statement (of the Funds) has established the policy of “alignment”, whereby liabilities on default of one employer, with no guarantor, are assigned or apportioned to another employer(s) where a clear linkage exists, e.g. geographical or funding relationship.
- 3.3 A revised Admission Agreement formally clarifying the position of the four Councils as guarantors, in proportion to their respective shareholdings, will be sought prior to the transfer of assets and liabilities and merger of the two Funds.
- 3.4 The Actuary has stated that such explicit guarantee is required to permit “Lothian Buses to continue to pay contributions to the Fund after the last active member leaves” and so that “there would be no need to target a 100% gilts strategy at the cessation date if the funding time horizon extends beyond that point”. This increased flexibility is likely to be very much in the mutual interests of the company and its shareholders.
- 3.5 At the same meeting, Pensions Committee noted that the Actuary’s certification of the results of the 2017 Actuarial Valuation of LBPF was predicated upon a revised Admission Agreement and Shareholder Guarantee for Lothian Buses Limited. Accordingly, he has reserved the right to revise the certification of the minimum contribution rate(s) should there be any undue delay in the formal signing.
- 3.6 The Finance and Resources Committee previously considered a report, in February 2018, on a request to act as a pension guarantor for Edinburgh Leisure. Members agreed that any further requests from organisations seeking pension liability guarantees should be considered on their own merits.
- 3.7 The most recent actuary valuation of LBPF at 31 March 2017 showed a funding level of 89% on a gilts basis and 121% on an ongoing basis.
- 3.8 It is recommended that the Council becomes a guarantor for its share of Lothian Buses Limited to realise the benefits outlined, and the approval of Council is sought to do so.

4. Measures of success

- 4.1 Lothian Buses Limited meets its pension liabilities as they fall due.
- 4.2 The Council is not called upon to make a payment in its capacity as guarantor.
- 4.3 Financial advantages set out are reflected in future investment performance and actuarial valuations of LPF.

5. Financial impact

- 5.1 Acting as a guarantor for Lothian Buses Limited will not impact on the Council, provided Lothian Buses Limited meets its pension liabilities, as they fall due.

- 5.2 To a large extent the scale of benefits will be dependent upon future financial market conditions. It is estimated that savings will be at least £0.75m - £1m per annum, although these would not be realised immediately, but over time.

6. Risk, policy, compliance and governance impact

- 6.1 A revised Admission Agreement for Lothian Buses Limited, formally clarifying the position of the four Councils, as guarantors of the pension liabilities in proportion to their respective shareholding, will be put in place prior to the transfer of assets and liabilities. This will serve to strengthen governance and affirm the employer covenant.
- 6.2 Any guarantor arrangement requires the approval of Council.
- 6.3 The guarantor arrangement exposes the Council to a risk of additional costs if pension liabilities are not met as they fall due.

7. Equalities impact

- 7.1 There is no direct additional implication of the report's contents.

8. Sustainability impact

- 8.1 There is no direct additional implication of the report's contents.

9. Consultation and engagement

- 9.1 Lothian Pension Fund undertook consultation with Lothian Buses Limited and union representatives for Lothian Buses members as part of the preparation of the report to the Pensions Committee in March 2018.

10. Background reading/external references

- 10.1 [Merger of Lothian Buses Pension Fund and Lothian Pension Fund](#) – Report to Pensions Committee 12 March 2018.
- 10.2 [2017 Actuarial Valuation for Lothian Buses Pension Fund](#) – Report to Pensions Committee 12 March 2018.

Stephen S. Moir

Executive Director of Resources

Contact: Hugh Dunn, Head of Finance

E-mail: hugh.dunn@edinburgh.gov.uk | Tel: 0131 469 3150

11. Appendices

None.