

# Item 4.1 - Minutes

## Pensions Committee

**3.00pm, Monday 16 November 2015**

### Present

Councillor Rankin (Convener), John Anzani, Councillor Child, Councillor Bill Cook, Richard Lamont, Councillor Orr and Councillor Rose

### Pensions Board Members Present:

Eric Adair, Jim Anderson, Simon Belfer, Thomas Carr-Pollock, Darren May, Linda McDonald, Graham Turnbull and Catrina Warren

## 1. Funding Strategy

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### (a) Deputation – Lothian Pension Fund Employers' Forum

Ken Hay (CMI), Brian Drinkwater (Into Work), Sharon Cowlie (Scottish Legal Complaints Commission) and Adam Wilkinson (Edinburgh World Heritage Trust) explained how changes to the funding approach had impacted on their organisations and others like them. There had been 14 organisations that had submitted an appeal with six of these stating that they wished to leave the fund, all for affordability reasons.

The impact on the affected organisations over the last 11 months had been one of uncertainty, resulting in organisations being unable to forward plan. Some organisations such as the Scottish Legal Complaints Commission had already set its budget with aforementioned increases in pensions costs now being unbudgeted. For other organisations there was concern that these additional pension costs may deter other funding.

The deputation asked the Pensions Committee to consider the following:

1. That the relevant Councils act as a guarantor to the affected organisations.
2. That a deal is agreed between the Pension Fund and the relevant organisations.
3. To suspend the process and lobby the Scottish Government to review the duties put on pension funds regarding cessation valuations.

Brian Drinkwater added that advice from the Lothian Pension Fund would also be welcomed which, if possible, could provide projections on future costs and affordability.

### (b) Report – Funding Strategy – Employer Appeals

Details were provided of the key issues raised by those appealing the funding approach and changes were recommended to the Funding Strategy Statement, in relation to the funding of liabilities transferred from another employer within the fund and the frequency of payment of past service deficits.

The Fund's actuary, Richard Warren, was heard in regard to the consideration of this item.

### **Decision**

- 1) To note that a further report by the Deputy Chief Executive, recording the determinations of the employer appeals against the Funding Strategy was to be considered as item B1.1.
- 2) To note that a further report by the Deputy Chief Executive, on those employers who proposed to cease membership of Lothian Pension Fund was to be considered as item B1.2.
- 3) To note that the Fund had proposed amendments to the Funding Strategy Statement following the appeals process and had consulted with employers on the proposed changes.
- 4) To agree to amend the Funding Strategy Statement to provide that where an employer had been admitted to the Fund, arising from the transfer of members of staff from another scheme employer and the ceding employer was in agreement, then funding, including cessation valuations, should be on an ongoing basis.
- 5) To agree to amend the Funding Strategy Statement to stipulate that employer contributions in respect of Past Service Deficit, which are expressed as a minimum fixed monetary sum, were payable on a monthly basis, that is one twelfth of the annual total.
- 6) To note that the basis of cessation valuation had been considered by the Scheme Advisory Board and to agree that the Fund would take cognisance of any guidance in due course.

(Reference – report by the Deputy Chief Executive, submitted.)

## **2. Minutes**

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### **Decision**

To approve the minute of the Pensions Committee of 30 September 2015 as a correct record.

## **3. Resolution to consider in private**

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The Committee, under Section 50(A)(4) of the Local Government (Scotland) Act 1973, excluded the public from the meeting for the following items of business on the grounds that they involved the disclosure of exempt information as defined in Paragraph 6 of Schedule 7(A) of the Act.

## 4. Employer Appeals against Funding Strategy, Actuarial Valuation 2014 - Determinations

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Appeals made by eight employers against the adoption of a low risk (cessation basis) approach to funding in the Funding Strategy for the 2014 Actuarial Valuation were outlined.

### Decision

- 1) To note that the Deputy Chief Executive has determined the outcome of the appeals in consultation with the Convener of the Pensions Committee, the Convener of the Pensions Audit Sub-Committee and the Independent Professional Observer, in accordance with the instruction by the Pensions Committee.
- 2) To note the conclusion of the appeals process for those employers looking to remain in the Fund, as follows:
  - 2.1) The future service rate on the gilts basis is considered to be the minimum contribution in order to ensure that the accrual of new benefits does not increase the deficit on the cessation basis.
  - 2.2) In the event of active members leaving earlier than anticipated, the Fund should require employers to continue to pay the respective future service rate contributions to the Fund to reduce the deficit.
  - 2.3) Given the disputed interpretation of the clause in the admission agreement the Fund should look to update the admission agreements of the affected employers.
- 3) To note that actuarial advice had been taken and that accordingly a revised 'Rates and adjustments certificate' would be issued to the Fund Actuary.
- 4) To note that appropriate follow-up actions would be undertaken by Lothian Pension Fund, including exploring the potential for suitable financial guarantor(s)

(Reference – report by the Deputy Chief Executive, submitted.)

## 5. Employers Exiting Lothian Pension Fund

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Details were provided of proposals from employers who had stated their intention to leave the Fund.

### Decision

- 1) To note that six employers had intimated that they proposed to close their Local Government Pension membership to future accrual as soon as possible, and thereby leave the Fund.

- 2) To note that Pilton Community Health Partnership exited the Fund with effect from 1 April 2015.
- 3) To note that in these cases, requiring repayment of cessation debt over a short period of time could mean that the employer defaulted or in some cases go into insolvency.
- 4) To agree the conclusions of the review of these cases, that the interest of the Fund as a whole (and any aligned body) may be best served by:
  - 4.1) Allowing payment of cessation debt over longer terms rather than insisting on payment as a one-off payment or over shorter terms previously agreed;
  - 4.2) Agreeing repayment of debt less than the cessation debt in order to avoid employer insolvency, with an appropriate agreement which allows the Fund to revisit the repayment of the remaining debt at a future date (i.e. the debt would be a contingent liability and hence not recognised on an employer's balance sheet).
  - 4.3) Maximising debt repayment in the short term in order to access employers' current cash reserves, rather than these being depleted by further losses.
  - 4.4) Obtaining security over any employer assets and/or suitable guarantee where possible.
  - 4.5) Seeking, where appropriate, suitable 'anti-embarrassment' provisions in legal agreements covering future increases in employer asset values.
- 5) To delegate authority to the Deputy Chief Executive, or whom failing, the Head of Finance, the conclusion of the debt repayments with each of the seven employers in line with the conclusions above and as outlined in the report by the Deputy Chief Executive, taking into account up-to-date accounting information as required.
- 6) To note that the final outcomes of the employer exits and debt repayment plans would be reported to Committee in due course.
- 7) To agree that in the event of any of the six employers not exiting the Fund, that the future service rate on the gilts basis should be the minimum contribution in order to ensure that the accrual of new benefits did not increase the deficit on the cessation basis and that admission agreements were updated.

- 8) To note that the Deputy Chief Executive would report to the committee prior to taking any legal action when recovering debt.

(Reference – report by the Deputy Chief Executive, submitted.)