

Pensions Committee

2.00 p.m., Wednesday, 28 September 2016

Employers Participating in Lothian Pension Fund

Item number	5.9
Report number	
Executive/routine	
Wards	All

Executive summary

This report provides updates on:

- Employers who are currently looking to join the Fund;
- Employers leaving the Fund; and
- Other current matters affecting employers participating in the Fund.

Links

Coalition pledges

Council outcomes [CO26](#)

Single Outcome Agreement

Employers Participating in Lothian Pension Fund

Recommendations

- 1.1 That Committee invites the Pension Board to raise any relevant matters or concerns which the Committee should consider.
- 1.2 That Committee notes the changes to the employers participating in Lothian Pension Fund.

Background

- 2.1 Responsibilities of both the City of Edinburgh Council, as administering authority of the Fund, and the participating employers are set out in the Funding Strategy statement and the Pensions Administration Strategy.
- 2.2 The Funding Strategy Statement includes the 'Admission Policy' (for employers joining the Fund), the 'Policy on Employers leaving the Fund' (cessation policy) and the 'Charging Policy' outlining when charges will be levied by the Fund.
- 2.3 The Pensions Administration Strategy sets out standards for exchange of information, including the requirement for the employer to keep the Fund informed about planned changes to their pension provision, including bulk transfers of staff and any outsourcing.

Main report

Employers joining the Fund

- 3.1 As previously advised to Committee, the City of Edinburgh Council has entered into a contract with CGI IT UK Limited (CGI) for the provision of ICT services for the Council. This contract was previously with BT, who chose not to join the Fund when staff transferred from the Council in 2001. Admission agreements have now been finalised with both CGI and their subcontractor Dacoll Limited. A total of 27 staff have joined the Fund – 22 with CGI and 5 with Dacoll.
- 3.2 Staff transferring from BT to CGI and Dacoll will have the option to transfer their previous pension rights accrued in the BT Pension Scheme. As required under the Scheme regulations, the transfers will be carried out on a bulk basis and the Fund's actuary is working with the BT Pension Scheme actuary to agree transfer terms.
- 3.3 West Lothian Council entered into a contract with Dawn Construction to provide janitorial services for Schools in the West Lothian area. Dawn Construction were admitted to the Fund in 2009. Dawn sold their business to Bellrock Construction on

30 June 2016 and Bellrock applied for admission to the Fund for the remaining active members. An admission agreement with Bellrock Construction has now been finalised. As required by the Scheme Regulations, West Lothian Council will act as guarantor for Bellrock.

Employers leaving the Fund

- 3.4 As previously reported to Committee, cessation valuations have been carried out by the Fund's Actuary in respect of several employers who left the Fund last year. Full payment has been received from BAM Construction and from the Scottish Government in respect of the Forth Estuary Transport Authority.
- 3.5 Cessation valuations have now been carried out for both the National Mining Museum and the Broomhouse Centre who have now left the Fund following the retirement of their last active members. The Fund is currently in discussion with these employers regarding repayment of cessation debt in accordance with the principles established and agreed by Committee in November 2015 following the 2014 Actuarial Valuation process.
- 3.6 In recognition of affordability issues facing many employers, the Fund has, in consultation with external advisors, drawn up a funding agreement to address repayment of the cessation debt. As previously agreed by Committee, in order to avoid employer default or insolvency, the agreement will allow for repayment over longer terms, and if necessary for repayment of less than the cessation debt. In the latter scenario, an appropriate clause will be included which will allow 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). In addition, the agreement also contains an 'anti-embarrassment' provision to cover future increases in employer asset values.
- 3.7 The funding agreement will be tailored to each employer's circumstances, taking into consideration the employer's financial circumstances and also the ability to offer security over employer assets (where applicable).
- 3.8 Draft funding agreements have been issued to the National Mining Museum and the Broomhouse Centre, as well as Pilton Community Health Project, the latter organisation having ceased its membership last year. Details have also been communicated to the other employers who, as part of the Actuarial Valuation 2014 appeals process, indicated that they wished to leave the Fund.
- 3.9 As previously reported to Committee, a cessation valuation has also been carried out in respect of Age Scotland, a former Fund employer. Further information is included in item B1.2.

Other changes

- 3.10 Barony Housing Association has advised that it will enter into a partnership with Wheatley Housing Group. Barony will continue as a separate legal entity and will remain the employer of the staff who are currently members of Lothian Pension Fund. The Fund has carried out appropriate due diligence in consultation with legal advisers and has established that this change strengthens Barony's covenant and will thus provide greater protection for the Fund. As Barony was originally admitted

to the Fund in 1980, a revised admission agreement has been prepared to ensure consistency with current legislation and documentation.

- 3.11 Edinburgh Cyrenians Trust changed from being governed by a Deed of Trust to a Scottish Charitable Incorporated Organisation from 1 April 2016. A new admission agreement has now been finalised to reflect this change in legal status, including commitment that the new entity has responsibility for previous pension liabilities.
- 3.12 West Lothian Leisure was admitted to the Fund in 1998. They have converted from an Industrial and Provident Society to a Company Limited by Guarantee with West Lothian Council as sole member of the company. A new admission agreement to reflect this change in status has been finalised and West Lothian Council have agreed to act as guarantor.
- 3.13 Canongate Youth Project and Citadel Youth Centre are both changing status to become Scottish Charitable Incorporated Organisations. New admission agreements have been prepared for both employers to reflect this change in legal status, including commitment that the new entity has responsibility for previous pension liabilities.
- 3.14 Into Work Ltd was admitted to the Fund in 1998. Into Work submitted a request that they be treated as Transferee Admission Body under Section 8.4 of the Fund's Funding Strategy Statement as staff were previously employed by the City of Edinburgh Council. As required, agreement to this change has been sought and obtained from the City of Edinburgh (as ceding employer). Any future cessation valuation for Into Work will now be carried out on the ongoing basis.
- 3.15 As previously reported to Committee, employees of the City of Edinburgh Council, East Lothian Council and West Lothian Council transferred to the Civil Service Pension Scheme in 2014. These transfers were part of a UK-wide exercise to introduce a Single Fraud Investigation Service. Since the last update to Committee, the Fund's Actuary has confirmed that bulk transfer terms have been agreed with the Government Actuary's Department and that members are currently being given the option to transfer their membership from the Local Government Pension Scheme to the Civil Service Pension Scheme.

Employer Covenant

- 3.16 Following the 2014 Actuarial Valuation appeals process, Fund officers have been in discussion with two employers regarding the potential to offer the Fund security over employer property and/or investment assets. This would strengthen the employer covenant (ie reduce the risk of default on pension liabilities) and potentially allow the employer to revert to the core investment strategy instead of being invested in lower-risk assets.
- 3.17 In preparation for the 2017 Actuarial Valuation, plans are in place to review the covenant of all employers participating in the Fund. This will involve gathering financial and other data from each employer and will be used to help set contribution rates and in the review of the Funding Strategy Statement.

- 3.18 The Fund is also reviewing admission agreements in order to ensure that these are all on standard terms. Priority will be given to those employers where this work could strengthen the employer's covenant.

Measures of success

- 4.1 Employers continue to take decisions in full knowledge of Local Government Pension Scheme (LGPS) Regulations and with awareness of policies put in place by the Fund to protect the Fund as a whole.

Financial impact

- 5.1 There is no financial impact arising directly from this report. However proactive monitoring of employers participating in the Fund and appropriate admission agreements for employers help to protect the financial position of the Fund and other contributing employers.

Risk, policy, compliance and governance impact

- 6.1 Ongoing monitoring and engagement, together with robust policies on admission and cessation help to mitigate the risks of employer actions having an adverse impact on the Fund. Risks are also regularly reviewed via the Lothian Pension Fund risk register.

Equalities impact

- 7.1 There is no equalities impact as a result of this report.

Sustainability impact

- 8.1 There is no sustainability impact arising from this report.

Consultation and engagement

- 9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Funds.
- 9.2 The Fund engages with participating employers on a regular basis via monthly bulletins highlighting relevant issues and employer events held throughout the year. The Fund continues to remind employers of the importance of keeping the Fund informed of any changes that could have an impact on their pension arrangements.

- 9.3 Changes to relevant regulations and policies and the implications of these changes are communicated to employers, with consultation exercises carried out where appropriate.

Background reading/external references

None

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Links

Coalition pledges

Council outcomes CO26 - The Council engages with stakeholders and works in partnerships to improve services and deliver agreed objectives

Single Outcome Agreement

Appendices