

Pensions Committee

2.00pm, Wednesday, 26 September 2018

Employers Participating in Lothian Pension Fund

Item number	5.9
Report number	
Executive/routine	
Wards	All
Council Commitments	Delivering a Council that works for all

Executive Summary

The purpose of this report is to provide an update on current matters affecting employers participating in the Fund and in particular to highlight:

- The steady number of employers leaving the Fund and efforts made to recover exit payments;
- Other relevant issues including bulk transfers of employers; and
- Proposed changes to the Funds' Funding Strategy Statement.

Employers Participating in Lothian Pension Fund

1. Recommendations

Committee is requested to:

- 1.1 Note the changes to the employers participating in Lothian Pension Fund; and
- 1.2 Agree to amend the Funds' Funding Strategy Statement in line with revised Scheme Regulations as outlined in paragraphs 3.10 and 3.12.

2. 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.

3. Main report

Employers leaving the Fund

- 3.1 As previously reported to Committee, Streetwork left the Fund in August 2017 following the retirement of the last active member. Further information is included in agenda item B1.2.
- 3.2 As previously reported to Committee, two admitted bodies, Four Square and Keymoves merged. As a result, Keymoves was wound up and left the Fund in July 2017. Further information is included in item agenda B1.2.
- 3.3 Dean & Cauvins Trust chose to leave the Fund with effect from 1 June 2018. Further information is included in item B1.2.
- 3.4 Wester Hailes Land and Property Trust chose to leave the Fund with effect from 1 July 2018. Further information is included in item B1.2.

- 3.5 Exit valuations have been carried out for two former employers, Lothian Homes Trust and Family Mediation Lothian. Further information is included in item B1.2.

Other Changes

- 3.6 As reported to Committee in March 2018, Citadel Youth Centre advised that it is changing status to become a Scottish Charitable Incorporated Organisation. A new admission agreement to reflect this change in legal status, including commitment that the new entity has responsibility for previous pension liabilities has now been signed.
- 3.7 As previously reported to Committee, employees of the City of Edinburgh Council, East Lothian Council and West Lothian Council involved in the creation of a Single Fraud Service transferred to the Civil Service Pension Scheme in 2014. One member opted to transfer benefits to the Civil Service Pension Scheme. The Fund has now been advised that no other members will be transferring.
- 3.8 As reported to Committee in March 2018, Mitie PFI Ltd who were admitted to the Fund in 2008, had advised the Fund that they intend to transfer all employees, currently employed by a number of Mitie companies, to a single employing entity. This would mean that staff currently covered by the admission agreement would be employed by Mitie Limited, and therefore require a revised admission agreement. The original effective date for this transfer was 1 April 2018, however this has now been delayed. An update will be provided to Committee at a later date.
- 3.9 The Scottish Fire and Rescue Service have advised that they intend to outsource some facilities management and other services to an outside contractor. The intention is that staff will transfer over to the new contractor who would apply for admission to the Fund to provide continuity of pension provision. Fund Officers have met with staff from Scottish Fire and Rescue Service to advise on the admission process and the requirement for the Service to act as guarantor. An update will be provided to Committee at a later date.

Local Government Pension Scheme (Scotland) Regulations 2018

- 3.10 As highlighted elsewhere on the agenda, new Scheme Regulations were introduced with effect from 1 June 2018. A number of new provisions were introduced, including the provision for an 'exit credit' to be paid to employers leaving the Scheme. This would apply in situations where the exit valuation on leaving showed an excess of assets over liabilities. It is therefore recommended that Section 2.2 of Appendix C of the Funding Strategy Statement is amended to include the following: 'Where a cessation valuation identifies that an employer is in surplus, this surplus will be returned to the employer.'
- 3.11 A further change gives Funds the ability to issue a 'suspension notice' where an employer is leaving the Fund. A suspension notice suspends the employer's liability to pay the exit payment, but the employer 'must continue to make such contributions towards the liabilities towards the liabilities of the fund in respect of benefits for the employer's current and former employees until a new and satisfactory valuation is carried out and the suspension notice is withdrawn.'

- 3.12 Whilst in general, the preference remains for exit payments to be made at the time of exit, there are circumstances where it would be useful for the Fund to issue a suspension notice. This could include cases where an exiting employer's financial situation is expected to improve in the long-term, and rather than crystallising liabilities on exit, the Fund would be able to achieve a higher total sum in repayment of cessation debts. It is therefore recommended that Appendix C of the Funding Strategy Statement is amended as follows: 'The Fund may, at its discretion issue a suspension notice to an employer leaving the Fund, suspending the employer's liability to make an exit payment. In such cases, the employer must continue to make contributions to the Fund at a level agreed by the Fund and the Fund Actuary.'

4. 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.

5. Financial impact

- 5.1 The changes to the Scheme regulations highlighted above may have an impact on the Fund. Should a surplus arise on employer exit, a refund would mean a corresponding cash outflow from the Fund.
- 5.2 The flexibility offered by the introduction of the suspension notice could however enhance the Fund's ability to obtain repayment of cessation debt.
- 5.3 An update on the use of these provisions will be provided to Committee as appropriate.

6. 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.

7. Equalities impact

- 7.1 There are no equalities implications as a result of this report.

8. Sustainability impact

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

9. Consultation and engagement

- 9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Fund and they are invited to comment on the relevant matters at Committee meetings.
- 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.

10. Background reading/external references

- 10.1 None.

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11. Appendices

None