

Pensions Committee

2.00pm, Wednesday, 27 March 2019

Employers Participating in Lothian Pension Fund

Item number	5.7
Executive/routine	
Wards	All
Council Commitments	Delivering a Council that works for all

1. Recommendations

The Pensions Committee (**Committee**) is requested to:

- 1.1 **note** the changes to the employers participating in Lothian Pension Fund.

Stephen Moir

Executive Director of Resources

Contact: Erin Savage, Pensions Operations and Development Manager, Lothian Pension Fund

E-mail: erin.savage@edinburgh.gov.uk | Tel: 0131 529 4660

Employers Participating in Lothian Pension Fund

2. Executive Summary

- 2.1 The purpose of this report is to provide an update on current matters affecting employers participating in the Lothian Pension Fund and in particular to highlight:
- the steady number of employers leaving the fund and efforts made to recover exit payments; and
 - other relevant issues including bulk transfers of employers.

3. Background

- 3.1 Responsibilities of both the City of Edinburgh Council, as administering authority of the Lothian Pension Fund, and the participating employers are set out in the Funding Strategy Statement and the Pensions Administration Strategy.
- 3.2 The Funding Strategy Statement includes (i) the Admission Policy (for employers joining the Fund), (ii) the Policy on Employers leaving the Fund (cessation policy) and (iii) the Charging Policy, outlining when charges will be levied by the Fund.
- 3.3 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.

4. Main report

Employers joining the Fund

- 4.1 Edinburgh College outsourced catering staff to an outside contractor, Mitie Catering Services Limited. To allow continuity of pensions provision, Mitie Catering Services Limited applied for admission to the Scheme. Staff transferred with effect from 1 February 2019 and a signed admission agreement is now in place. Edinburgh College is acting as guarantor for this admission.
- 4.2 As previously reported to the Committee the Scottish Fire and Rescue Service has outsourced some facilities management services to an outside contractor, Sodexo,

which applied for admission to the Scheme. Staff transferred to Sodexo with effect from 1 March 2019 and a signed admission agreement is now in place. The Scottish Fire and Rescue Service are acting as guarantor for this admission.

Employers leaving the Fund

- 4.3 As previously reported to Committee, exit valuations were carried out for two former employers, Lothian Homes Trust and Family Mediation Lothian. An update is provided in agenda item B1.3.
- 4.4 As previously reported to Committee, Streetwork left the fund in August 2017 following the retiral of its last active member. Further information is included in agenda item B1.3.
- 4.5 As previously reported to Committee, Wester Hailes Land and Property Trust chose to leave the fund with effect from 1 July 2018. Further information is included in agenda item B1.3.
- 4.6 Similarly, Donaldson's voluntarily elected to leave the fund with effect from 1 November 2018. Further information is included in agenda item B1.3.
- 4.7 The EDI Group was wound up and as a result left the fund with effect from 1 November 2018. Further information is included in agenda item B1.3.
- 4.8 Open Door Accommodation Project opted to leave the fund with effect from 9 November 2018. Further information is included in agenda item B1.3.

Early retirement costs

- 4.9 When an employer decides to allow a member to retire early (other than on the grounds of ill-health), an additional employer contribution is required. Fund policy is to require this additional contribution (known as a 'strain on fund cost') to be paid as a one-off lump sum at the time of the retirement.
- 4.10 The fund has been approached by an employer to request that a strain cost be paid in instalments for affordability reasons. Further information is included in agenda item B1.3.

Contribution Stability Mechanism

- 4.11 The fund has adopted a Contribution Stability Mechanism (**CSM**) to set contribution rates for secure, long-term employers such as Councils and other statutory bodies which are open to new entrants. Full criteria for inclusion in the CSM is set out in the fund's Funding Strategy Statement. The aim of the CSM is to achieve stability of contribution rates whilst ensuring that the employer's long-term funding position remains secure. Participation in the CSM provides budgetary certainty for employers.
- 4.12 Committee approved the continued use of the CSM for the 2017 actuarial valuation, with a commitment to review in advance of the 2020 valuation.
- 4.13 In the interim, the fund continues to monitor employers to ensure continued suitability for inclusion in the CSM. This monitoring includes quarterly monitoring of membership numbers as well as regular employer covenant reviews. The most

recent membership monitoring report showed that SESTRAN has experienced a reduction in active members to 6, which is significantly smaller than the other employers participating in the contribution stability mechanism. Given such small numbers, continued participation in the contribution stability mechanism would present a risk to the employer as there is a greater chance that full funding would not be achieved over time.

- 4.14 As a result, with effect from 1 April 2019, SESTRAN will no longer participate in the Contribution Stability Mechanism. Revised contribution rates have been provided to the employer (24.6% of payroll plus £15,000 in 2019/20 and 27.7% of payroll plus £18,000 in 2020/21) and it has confirmed that these are affordable.

Employer Covenant review

- 4.15 In order to maintain up-to-date information on employer covenant, the fund issues regular surveys to all employers participating in the Lothian Pension Fund. These surveys involve gathering financial information as well as updates on any planned changes which may impact pension arrangements such as closing the Scheme to new entrants or large-scale redundancy exercises. The last survey was carried out in 2016, prior to the 2017 valuation. A further survey has now been issued and an update will be provided to Committee at a later date.

5. Next Steps

- 5.1 The fund will continue to monitor employers and an update will be provided to Committee in September 2019.

6. Financial impact

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

7. Stakeholder/Community Impact

- 7.1 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.
- 7.2 The fund engages with participating employers on a regular basis via monthly bulletins highlighting relevant issues and employer events held throughout the year.
- 7.3 Changes to relevant regulations and policies and the implications of these changes are communicated to employers, with consultation exercises carried out where appropriate.

- 7.4 There are no adverse health and safety, governance, compliance or regulatory implications as a result of this report
- 7.5 There are no adverse sustainability impacts arising from this report.

8. Background reading/external references

- 8.1 None.

9. Appendices
