

# Pensions Committee

11.00am, Wednesday, 27 September 2017

## Employers Participating in Lothian Pension Fund

Item number	5.12
Report number	
Executive/routine	
Wards	All
Council Commitments	<a href="#">Delivering a Council that works for all</a>

### Executive Summary

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The purpose of this report is to provide an update on current matters affecting employers 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
- The reputational risk associated in administering unfunded pension benefits to former employees of admitted bodies.

## Employers Participating in Lothian Pension Fund

### 1. Recommendations

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Committee is requested to:

- 1.1 Invite the Pension Board to raise any relevant matters or concerns which the Committee should consider;
- 1.2 Note the changes to the employers participating in Lothian Pension Fund; and
- 1.3 Note the Fund's proposed action in relation to pensioners who are in receipt of compensation pension following an award of additional membership on retirement.

### 2. Background

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- 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

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#### **Employers leaving the Fund.**

- 3.1 As reported to Committee in September 2016, the Fund has continued discussions with Age Scotland, a former Fund employer in respect of the cessation valuation. Further information is included in agenda item B1.3.
- 3.2 As previously reported to Committee, the Fund remains in discussion with Edinburgh Rape Crisis Centre regarding repayment of cessation debt following the retirement of the last active member in August 2016. Further information is included in agenda item B1.3

- 3.3 Following the retirement of the last active member in August 2017, a cessation valuation has been carried out for Streetwork. Further information is included in agenda item B1.3.
- 3.4 Queensferry Churches Care in the Community Project have advised that they wish to leave the Fund. Further information is included in agenda item B1.3
- 3.5 As previously reported to Committee, two admitted bodies, Four Square and Keymoves have merged. As a result of this, Keymoves has now left the Fund. Further information is included in item agenda B1.3

### **Other changes**

- 3.6 As reported to Committee in March 2017, Citadel Youth Centre has advised that it is changing status to become a Scottish Charitable Incorporated Organisation. A new admission agreement has been prepared to reflect this change in legal status, including commitment that the new entity has responsibility for previous pension liabilities. This will be signed on receipt of confirmation of the change from the Office of the Scottish Charity Regulator which is expected shortly.
- 3.7 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. Although the transfer from West Lothian Council has been completed, no further updates have been provided in relation to the rest of the members. The Fund continues to pursue the matter via the Fund Actuary who has been working with the Government Actuary's Department who are working on this transfer for the Civil Service Pension Scheme.
- 3.8 The City of Edinburgh Council has recently announced a change to current arrangements for city development which will impact on its arms-length companies currently delivering these services. These include EDI Group which is an admitted body to the Fund. The company is expected to continue in existence for at least another year. Fund officers are in discussion with the Actuary, EDI Group and the City of Edinburgh Council on the treatment of pension liabilities for EDI Group after the admission to the Fund is terminated.

### **Employer Covenant**

- 3.9 As previously reported to Committee, a survey was sent to all employers within the Fund in November 2016 to request financial and other data. Analysis of this data has been completed and this will be used as part of the 2017 Actuarial Valuation to help set employer contribution rates and in the review of the Funding Strategy Statement.

### **Unfunded Pensions and Risk of Employer Default**

- 3.10 Part III of the Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998 permits employers to award compensation in the form of additional membership to members retiring on the grounds of redundancy or efficiency. This compensation takes the form of an additional amount of lump sum payable on retirement and an additional amount of pension. The pension is index-

linked and payable for the member's life with provision for a dependant's pension at half-rate thereafter.

- 3.11 These unfunded benefits are employer payments, however for ease of administration, the Fund administers the compensation pension to the member (which is paid from an account of the City of Edinburgh Council) along with the pension from Lothian Pension Fund. The compensation pension is then recharged to the employer on a monthly basis - an arrangement permitted within the relevant Regulations.
- 3.12 Such awards are now less common due to the long-term costs involved, however historical awards remain, some of which relate to eleven admitted bodies who no longer have active members in the Fund, but continue to exist. At present, the relevant recharges are being paid, but there is a risk that these employers may cease to exist in the future. This risk has come to light following discussions with an admitted body who is looking to leave the Fund.
- 3.13 The Fund plans to write to all those pensioners previously employed by an admitted body who receive such compensation to advise that should their former employer cease to exist; this element of pension would cease. The funded element of pension would of course continue to be paid. Committee should be aware of the potential adverse publicity associated with ceasing these unfunded pensions.

#### **4. Measures of success**

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- 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**

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- 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.

#### **6. Risk, policy, compliance and governance impact**

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- 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.

## 7. Equalities impact

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

## 8. Sustainability impact

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8.1 There is no sustainability impact arising from this report.

## 9. Consultation and engagement

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- 9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Fund.
- 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

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10.1 None.

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## 11. Appendices

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None