

Finance and Resources Committee

2.00p.m., Thursday 8 February 2018

Edinburgh Leisure – Pension Guarantee

Item number	5.8
Report number	
Executive/routine	
Wards	
Council Commitments	

Executive Summary

The Council has been asked by Edinburgh Leisure (EL) to act as a guarantor for its pension arrangements with Lothian Pension Fund (LPF), thus enabling EL to continue to fund its pension obligations using the “ongoing basis” to minimise the impact of pension increases on its budget. This is in accordance with LPF’s Funding Strategy Statement (FSS) which specifically provides for such, given that the EL admission to LPF followed a formal transfer of staff from the Council.

Committee is asked to approve the recommendations in this report.

Edinburgh Leisure – Pension Guarantee

1. Recommendations

- 1.1 Members of the Finance and Resources Committee are asked to:
 - 1.1.1 Note the content of the report;
 - 1.1.2 Refer the report to Council for approval to act as a pension guarantor for Edinburgh Leisure; and
 - 1.1.3 Agree that any further requests from organisations seeking pension liability guarantees should be considered on their own merits.

2. Background

- 2.1 Since 2006, LPF has required any employer seeking admission to the Local Government Pension Scheme (LGPS) to provide a pension liability guarantee from an organisation of suitable financial strength. Prior to this date, however, this was not mandatory.
- 2.2 Edinburgh Leisure (EL) was created on 1 April 1998, with 575 staff being TUPE transferred from the City of Edinburgh Council. These individuals transferred under TUPE, with full recognition of all Council terms and conditions, including membership of Lothian Pension Fund (LPF), with an “admitted body” status. EL closed the LPF to new employees in 2008, with alternative pension arrangements put in place for new employees. There are currently 231 employees still in LPF.
- 2.3 Each admitted body within LPF is aligned to one of the scheduled bodies (including Councils), and they are liable for any costs should the scheduled body be unable to meet its pension liabilities. The Council is the sponsor for EL.
- 2.4 An extract from Appendix C of the LPF FSS states “ ... where the employer leaving the fund if a Transferee Admission Body or if an employer was admitted owing to the transfer from another Fund employer (and the ceding employer has agreed to the treatment of the employer as a Transferee Admission Body for funding purposes), the ongoing basis will be used”.
- 2.5 The Council has had other requests to provide formal pension guarantees from charitable and / or grant funded bodies in respect of historic admissions to LPF. To date, however, it, has only entered into such agreements with three smaller organisations, the admission to LPF in all three cases arose because of TUPE staff transfer considerations. The general principle applied by the Council is that, as

primary responsibility lies with each organisation and with no staff being TUPE'd from the Council, the preference is to allow such organisations to meet any cessation liabilities over a longer time-period.

- 2.6 For information, West Lothian Council has previously accepted a TUPE transfer admission basis to LPF in respect of West Lothian Leisure (WLL) and therefore acts as a guarantor to LPF for WLL pension liabilities

3. Main report

- 3.1 LPF is introducing a new investment strategy from 1 April 2018. This medium-term strategy will be for those employers closed to new entrants but who do not meet the criteria for LPF's lower-risk strategy. EL, being closed to new entrants, would be moved into this strategy, which will be invested 50% in the primary strategy and 50% in the lower-risk strategy. The impact of this would be a significant increase in contribution rates.
- 3.2 The funding strategy statement allows for allocation to an alternative strategy "where the higher risk strategy is supported by an explicit guarantor and / or where the Fund would not consider such to represent a scenario of greater risk exposure to other employer(s)". Should the Council be minded to act as a guarantor, EL could be moved back to the primary strategy. The Council may be minded to consider that, due to the original transfer of staff from the Council to EL, at its inception, any exit payment on cessation could be calculated on an ongoing basis, rather than on a gilts basis.
- 3.3 The table below sets out the difference in contribution rates, and an assessment of the impact into EL's budget, provided by their Chief Executive Officer.

Financial Year	Medium risk strategy		Main strategy	
	Contrib. rate	Contrib. £m	Contrib. rate	Contrib. £m
2017/18	18.5%	0.923	18.5%	0.923
2018/19	29.8%	1.487	20.8%	1.038
2019/20	41.1%	2.051	23.2%	1.158
2020/21	42.2% and £0.5m cash	2.606	25.5%	1.273

- 3.4 The table shows that, without the support of the Council as a guarantor, pension contributions will be considerably more expensive, place a huge financial burden on EL and likely result in a significant impact into services provided by EL.

Additionally, this would place a significant risk on the savings proposals included within the Council's budget framework for 2018/19.

- 3.5 It is therefore recommended that the Council, given the original TUPE transfer of staff from the Council, becomes a guarantor for EL pension liabilities, and the approval of Council is sought to so do.

4. Measures of success

- 4.1 Edinburgh Leisure's pension liabilities do not impact adversely into service provision and that it is able to meet pension liabilities as they fall due.

5. Financial impact

- 5.1 Acting as a guarantor to EL will not impact directly on the Council at this time, provided EL meets its pension liabilities, as they fall due, however, should the Council not act as a guarantor, the likelihood of achieving planned budget savings in 2018/19 is diminished with likely need to either reduce services or increase CEC contract payment in future years.

6. Risk, policy, compliance and governance impact

- 6.1 Any guarantor arrangement requires the approval of Council.
- 6.2 The guarantor arrangement exposes the Council to a risk of additional costs if pension liabilities are not met as they fall due.
- 6.3 There is a risk that other bodies seek similar arrangements, and the Council would increase its potential exposure to additional costs if pension liabilities are not met as they fall due.

7. Equalities impact

- 7.1 There is no direct additional impact of the report's contents.

8. Sustainability impact

- 8.1 There is no direct additional impact of the report's contents.

9. Consultation and engagement

- 9.1 Discussions have been held with Edinburgh Leisure and Lothian Pension Fund.

10. Background reading/external references

10.1 None.

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11. Appendices

None.