

## The Highland Council

3 September 2015

Agenda Item	16
Report No	HC/40/15

### Application for Admitted Body Status

#### Report by Director of Finance

##### Summary

The purpose of this report is for Members to consider an application from the University of Highlands and Islands Shared Services for Admitted Body status to the Highland Council Pension Fund.

## 1. Introduction

- 1.1 The Highland Council is the Administering Authority for the Highland Council Pension Fund.
- 1.2 In addition to the Highland Council, 32 employers actively participate as Admitted Bodies in the Fund.
- 1.3 The University of the Highlands and Islands (UHI) is an Admitted Body in the Fund.
- 1.4 The Highland Council acts as guarantor for the UHI.
- 1.5 An application for Admitted Body status would normally be considered through delegated powers by the Pensions Committee. However as there is a potential impact on the Council's guarantee, it is appropriate to consider the issue of the guarantee and Admitted Body status together.

## 2. Application for Admitted Body Status

- 2.1 Following discussion with representatives from the UHI, an application for Admitted Body status is expected to be received in respect of a new company "University of Highlands and Islands Shared Services".
- 2.2 The employees of the company will consist of current employees of the UHI and partnership universities across Scotland all of whom will be members of the Local Government Pension Scheme.
- 2.3 The UHI have agreed to act as guarantor for the new Shared Services organisation and therefore the proposal will reduce the Council's initial liability as guarantor to the UHI for the transferred staff. However should the original guarantee be called in then there is an increased liability on the Council for the additional employees, estimated at 18 staff transferred from partnership universities.

- 2.4 A request for a Bond to cover the potential liability arising from the new organisation could be considered as an alternative to revised guarantee arrangements. However the cost of the Bond would render the proposal to establish a new Shared Services company unviable.

### **3. Implications**

#### **3.1 Resource Implications**

- 3.1.1 To safeguard the Pension Fund against any deficit should the admission agreement be terminated, Admitted Bodies are required to provide either a suitable guarantor or a Bond to the value calculated by the Fund Actuaries.
- 3.1.2 The UHI has agreed to act as guarantor for the pension liabilities of the new company of which all but 18 employees already contribute to the Highland Council Pension Fund as employees of the UHI.
- 3.1.3 There is a theoretical risk that should the company cease to trade, and the termination deficit is such that the domino effect is that the UHI also falls, the Council will become liable for the deficit for both organisations.
- 3.1.4 The reality of the situation is that should the company cease to trade the fall back position would be for the employees affected to return to the current position and employer.
- 3.1.5 The Pension Fund has the option to request a Bond as an alternative to a guarantor, but the cost of establishing this type of cover is likely to end the Shared Services venture.
- 3.1.6 The initial value of the Bond has been calculated at circa £436k but that includes all but 18 employees already underwritten by the Council and, although difficult to accurately quantify, any additional cost to the Council will be significantly less.

#### **3.2 Risk Implications**

- 3.2.1 Allowing the proposed admission to the scheme would transfer the liability for 48 scheme members currently guaranteed by Highland Council to the UHI.
- 3.2.2 The additional risk to the Council would only apply should the new organisation cease to become a member of the Fund and any termination deficit was unable to be funded by the UHI.
- 3.2.3 Approving the application would allow the Council to support a cost saving initiative at a very low risk.
- 3.3 There are no other specific implications to highlight, other than those included in the report.

**Recommendation**

The Council is asked to consider the details of the report and approve the application for Admitted Body status and accept the UHI as guarantor for the new Shared Services company.

Designation: Director of Finance

Date: 21 August 2015

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