

Transition Board – Shetland Merger Project

Committee	Transition Board – Shetland Merger Project
Subject	LGPS admission request
Action requested	<input type="checkbox"/> For information only <input type="checkbox"/> For discussion <input type="checkbox"/> For recommendation <input checked="" type="checkbox"/> For approval
Brief summary of the paper	Further information on the Local Government Pension Scheme administered by Shetland Islands Council and a draft application for consideration by the Pension Board for Shetland UHI to be an admitted body.
Resource implications [if yes, please provide detail]	Yes Employer's contribution rate.
Risk implications [if yes, please provide detail]	Yes Insufficient funding or adequacy of a bond. Effect of possible increase in employer's contribution rate on service delivery.
Date paper prepared	17-Sep-20
Date of committee meeting	23-Sep-20
Author	Principal Designate
Equality and diversity	No
Status	Non-confidential
Freedom of Information Can this paper be included in 'open' business?*	Yes
Status following the meeting	

It has been proposed that the new college will be an Admitted Body to the Shetland Islands Pension Fund (SIPF). A letter with supporting information is required from Shetland UHI to the Pension Fund, requesting to join the LGPS by requesting 'admission body status of the Local Government Pension Scheme as administered by Shetland Islands Council.

The board is invited to consider the information provided and approve that Shetland UHI make an application for consideration by the Pension Board for Shetland UHI to be an admitted body.

Background

In 2018, when considering the Full Business Case, Shetland Islands Council considered the basis of transfer from the funding perspective. Three alternatives had been considered by the Actuary and these were detailed as:

- Fully funded - 'clean slate' option which leaves no liability with SFTCT;
- Share of deficit (of funding level of ceding employer) - at the calculation date - on an ongoing basis.
- Share of deficit (of funding level of active members of the ceding employer) - pensioner and deferred members of ceding employer fully funded at the calculation date - on an ongoing basis¹.

The most beneficial option was to proceed on the basis of a fully funded option which would leave no deficit remaining with SFTCT. As the fully funded option was agreed as the best way forward it then resulted in two major financial considerations:

1. A 'pension cessation' cost to the value of £2.5-3m (based on estimated position 31//10/18) for SFTCT from the liabilities left, which should be paid at point of cessation;
2. All new Admission Bodies (new Admission Agreements) will be required to provide some form of security, such as a guarantee, an indemnity or a bond, as set out in the SIPF Regulations. The security is required to cover some or all of the following:
 - the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
 - allowance for the risk of adverse market experience;
 - allowance for the possible non-payment of employer and member contributions to the Fund; and/or the current deficit.

Due to the provisions of the Further and Higher Education (Scotland) Act 2005, neither SFC nor UHI could provide the security required. Therefore, on 12 December 2018, Shetland Islands Council "APPROVED provision of a guarantee against the pension liability of the merged college to the Shetland Islands Pension Fund (SIPF)"².

Role and Responsibilities for Employers within the Scheme

An employer is responsible for:

- Deducting contributions from employees' pay correctly
- Paying contributions, including their own as determined by the actuary, by due dates
- Having a policy and exercising discretions within the regulatory framework

¹ <https://www.shetland.gov.uk/coins/viewDoc.asp?c=e%97%9De%92o%7C%8A>

² <https://www.shetland.gov.uk/coins/viewDoc.asp?c=e%97%9De%93p%7B%87>

- Making additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strains; and
- Notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.³

More detailed information is provided within the Pensions Administration Statement, which has been circulated with this paper.

Shetland Islands Council Pension Fund

SIC is the administering authority and is responsible for the administration of the Local Government Pension Scheme (LGPS) for employees and other employers who participate. This is done through the Shetland Islands Council Pension Fund (SIPF). The fund has over 3,200 active members, 1,800 deferred members and there are benefits paid to over 1,600 pensioners and dependents.

The governance arrangements as well as annual reports and fund valuations are provided on the Shetland Islands Council website:

<https://www.shetland.gov.uk/finance/Pensions.asp>

Admissions process

Shetland UHI are required to write to the SIPF in order to request to become an admitted body. The Executive Manager of Finance, who has responsibility for ensuring proper administration of the scheme, has requested information is supplied along with the letter as follows:

- a general summary of the purpose of the College.
- confirmation that the College is fully funded and is likely to continue to be funded for the foreseeable future,
- the sources of funding (preferably a copy of the latest financial statement, e.g. an income and expenditure account),
- confirmation that the College would be able to meet all the costs, including the contingent costs, of participation in the Local Government Pension Scheme, administered by Shetland Islands Council,
- confirmation of the % of the total fund paid by Shetland Islands Council,
- confirmation that the Shetland College constitutes a separate legal entity in its own right and is to be regarded in law as the employer of the persons concerned in the application,
- a copy of the Constituting Document,
- the number of employees involved in the application.

The information has been drafted to be submitted along with a covering letter and is attached to this paper.

The next meeting of the Pension Fund Committee is in November. The information is therefore requested by the end of September to ensure there is sufficient time to prepare the reports in line with SIC agenda management deadlines.

³ <https://www.shetland.gov.uk/finance/documents/F-028-FAppendix2.pdf> © Hymans Robertson

Summary of the purpose of Shetland UHI

Shetland UHI will build on the considerable strengths of NAFC Marine Centre, Shetland College and Train Shetland to create a vibrant new College within the family of the University of the Highlands and Islands.

We will be at the heart of economic development for the islands and work closely with industries as diverse as textiles and aquaculture, in various ways from skills development to research.

Shetland UHI will be an inspirational hub of innovation and learning designed to meet the needs of the people of Shetland, nationally and internationally.

This will be achieved by:

- Working together
Fostering activity and interaction across the organisation and between staff and students
- Working for Shetland
Addressing skills needs, supporting innovation and applied research for the Shetland economy as the university for Shetland, within the University for the Highlands and Islands (UHI)
- Working sustainably
Embedding sustainability in the curriculum and in our practice
- Working to become resilient
Encouraging staff and student development and aspiration, exploring and achieving new income streams
- Working with partners
Furthering relationships, strengthening our position within UHI and developing partnerships including with other institutions, particularly in the research field

Shetland UHI will provide the help, facilities and services all students need to participate in the life of the College and to make the most of their learning experience, regardless of their background, reason for learning, when or how they learn. As many learning opportunities as possible will be created for students to explore, enjoy and experience. Students will be able to choose a vocational or an academic route, with equal opportunity for meaningful progression.

Existing expertise in developing short courses and in apprenticeships will strengthen work-based learning throughout the Institute whilst our reputation and track record in scientific and creative/cultural research will allow us to continue to build on our research and curriculum offer.

Further information is available from the full Ministerial Merger Business Case which is published online:

www.a-new-college-for-shetland.uhi.ac.uk

Confirmation that the Shetland College is fully funded and is likely to continue to be funded for the foreseeable future and sources of funding

Shetland UHI will be assigned to the University of the Highlands and Islands. Within the MMBC, approved by Shetland Islands Council in April 2020 which was then subsequently endorsed by UHI, it is detailed that SFC funding would not change substantially and that there is an anticipated increased allocation of FE credit and both UG and PG HE places.

Shetland UHI's delivery of additional FE credits will require reallocation of credit within the Regional allocation or additional funded allocation to the Region. Similarly growth in UG HE will require rebalancing from the rest of the UHI partnership. Given the downward pressure on student recruitment in some areas and the modest numbers proposed, we anticipate this could be accommodated. However, these changes are not guaranteed and in that case, opportunities will be sought for alternative short course development. Masters delivery is not affected by such restriction.

The proposed growth in curriculum identified is modest and we have additionally been cautious in reducing the sum included in our financial model by up to 15%. We will also seek growth in research and consultancy income. An example of this would be fundraising to appoint a Chair of Seafood Industries which we identify as being highly relevant for Shetland where the total tonnage of fish landed exceeds the total landed in England, Wales and Northern Ireland combined.

Improving the financial position of tertiary provision in Shetland from deficit to a positive financial position relies on increasing income to the sector. The merging organisations are small and growth depends on retaining sufficient delivery staff to make the step change in curriculum and research activity to become sustainable. Removal of merger uncertainty and activity will allow focus on developing our academic and research portfolio. Strategic investments will be required by allocating more staff time to core functions of marketing and business development in order to secure the projected increase in grant income and student numbers. We will also actively seek funding to support staff costs of developing new curriculum and staff development where required to deliver high quality curriculum in new areas.

The table below provides an indicative summary of Cashflow for the first five-year period:

Cash Flow Forecast <small>(Includes indicative Capital Expenditure & Excludes ER/VR Costs)</small>	Years 1-5				
	Year 1 £	Year 2 £	Year 3 £	Year 4 £	Year 5 £
Opening Bank Balance	420,399	338,858	257,317	175,776	94,235
Surplus / (deficit) in year	(890,263)	(365,443)	(205,338)	(57,813)	31,796
Reduction in creditors	-81,541	-81,541	-81,541	-81,541	-81,541
SFC Transitional Funding	890,263	365,443	205,338	57,813	-
Capital Expenditure	-845,625	-398,960	-398,344	-100,000	-
SFC Capital Funding	845,625	398,960	398,344	100,000	-
Closing Bank Balance	338,858	257,317	175,776	94,235	44,489

Further information is available within MMBC Annex 1 - Financial Modelling which can be viewed online:

<https://www.a-new-college-for-shetland.uhi.ac.uk/t4-media/one-web/anewcollegeforshetland/documents/MBC-Annex-1-FInance-Model.pdf>

Confirmation that Shetland College would be able to meet all the costs, including the contingent costs, of participation in the Local Government Pension Scheme, administered by Shetland Islands Council

Shetland UHI will be able to meet all ongoing employer costs relating to participation in the Local Government Pension Scheme.

Shetland Islands Council in December 2018 approved the provision of a guarantee against the pension liability of the new merged college to the Shetland Islands Pension Fund (SIPF),

and if triggered, by a positive decision by the NAFC Marine Centre to also merge with the new College, that suitable arrangements be made for pension cessation costs.

Further information is available online:

<https://www.shetland.gov.uk/coins/agenda.asp?meetingid=6077>

Confirmation that the Shetland College constitutes a separate legal entity in its own right and is to be regarded in law as the employer of the persons concerned in the application

The first meeting of the Transition Board for Shetland UHI was held on 15 July 2020. At the meeting membership of the board was confirmed and Directors of the Board appointed. Furthermore, the Articles were adopted as well as the terms of reference and it was further noted that a special resolution had been lodged with Companies House. The steps taken are summarised in a Transition Board report which can be viewed online:

<https://www.a-new-college-for-shetland.uhi.ac.uk/t4-media/one-web/aneucollegeforshetland/transition-board/meeting---2020-07-15/2020-07-15-PB2020-17.pdf>

Copy of the Constituting Document

Adoption of Articles:

<https://www.a-new-college-for-shetland.uhi.ac.uk/t4-media/one-web/aneucollegeforshetland/transition-board/meeting---2020-07-15/2020-07-15-PB2020-17-AoA.pdf>

Terms of Reference:

<https://www.a-new-college-for-shetland.uhi.ac.uk/t4-media/one-web/aneucollegeforshetland/transition-board/meeting---2020-07-15/2020-07-15-PB2020-17-ToR.pdf>

Number of employees involved in the application

The final number of employees will only be known when the employee liability information is shared with Shetland UHI by current employers as per TUPE, the deadline being 28 days prior to transfer.

There are currently ?? staff at NAFC and ?? staff at Shetland College/Train Shetland. It should be noted that there are ?? lecturing staff who are members of the SPPA.