

Transition Board – Shetland Merger Project

Committee	Transition Board – Shetland Merger Project
Subject	Flexible apportionment agreement
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	Provides an update on the admission to Shetland UHI and information on the requirement to have a Flexible Apportionment Arrangement, and seeks approval to enter into agreements.
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	12-Jan-21
Date of committee meeting	20-Jan-21
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	

The Transition Board discussed and approved the details for Shetland UHI's application to be an Admitted Body to the Shetland Islands Pension Fund (SIPF) in September 2020 [TB2020-14]. The application was subsequently submitted and the SIPF will consider the application at their next meeting, scheduled for 11th February 2021.

Board members are asked to note that in December 2018, Shetland Islands Council resolved, (Min Ref SIC 55/18), to "APPROVE the provision of a guarantee against the pension liability of the 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". In short, the guarantee by SIC to cover NAFC pension cessation costs only materialises upon their merger into Shetland UHI.

The pension cessation liability was noted in October 2018 as being "the value of £2.5-3m based on the estimated position at 31 October 2018 for NAFC Marine Centre from the liabilities left, which should be paid at point of cessation". It is estimated that revised cessation costs would be in the region of £3-4m.

An admission agreement is required by SIPF in advance of any transfer of staff to Shetland UHI in order for Shetland UHI to participate in the Local Government Pension Scheme, in this case the SIPF. That will include a Flexible Apportionment Agreement which will be planned by SIPF for Shetland UHI. That will ensure the conditions for the provision of the guarantee from Shetland Islands Council are satisfied. The Trust's current liabilities under the LGPS would be taken on by Shetland UHI but would not require any immediate payment towards the debt outlined above on the employer. The potential liability in respect of the transferring employees' pensions would be an 'uncrystallised' liability which would be triggered in whole or part if the admitted body i.e. Shetland UHI, were to find itself subsequently unable to participate. The potential exposure for Shetland UHI's part is wholly mitigated by Shetland Islands Council providing a guarantee. The liability would reduce over time as, for example, employees leave service or become deferred members.

The Board are asked to approve the requirements of Shetland UHI to enter into a) an admission agreement with SIPF; and b) the Flexible Apportionment Agreement to be planned by SIPF for Shetland UHI.